5-2018

Smart or shirking? The effect of aggressive tax avoidance on corporate repuation

Jennifer McGarry
DePaul University

Smart or Shirking? The Effect of Aggressive Tax Avoidance on Corporate Reputation

by

Jennifer McGarry

DISSERTATION

Submitted as partial fulfillment of the requirements
for the degree of Doctorate of Business Administration
Kellstadt Graduate School of Business
DePaul University

CHICAGO, ILLINOIS

JUNE 2018

ABSTRACT

In this study, I investigate how news that a company has engaged in aggressive tax avoidance affects the company's reputation. If the general public believes companies have a responsibility to pay their "fair share" of the national tax burden, then they will likely view aggressive tax avoidance negatively. If instead the public believes companies have a responsibility to shareholders to maximize profits by minimizing tax, then they will likely view aggressive tax avoidance positively. I examine these two possibilities by conducting an experiment. I find that people tend to view aggressive tax avoidance negatively and thus companies suffer reputational damage when the public learns that they engaged in these tax avoidance strategies. Within this experiment, I also investigate whether the degree of reputational damage depends on the company's prior reputation and/or the specific tax strategy utilized. I find that neither prior reputation nor tax strategy's legality consistently affect the amount of reputational damage. I conduct a second experiment that investigates whether tax professionals accurately anticipate these consequences. I find that tax professionals generally understand that such strategies result in reputational damage, but that they somewhat underestimate the degree of reputational damage experienced by tax-avoiding companies. My results have important implications for companies and their tax advisors as they weigh the benefits, costs, and risks associated with various tax strategies.

TABLE OF CONTENTS

LIST OF TABLES

I. INTRODUCTION

In recent years, many well-known companies (e.g., Apple, General Electric, Google, Starbucks, Amazon, Nike) have been publicly accused of engaging in overly aggressive tax avoidance strategies (Kubick, Lynch, Mayberry, & Omer, 2015; Gallemore, Maydew, & Thornock, 2014). These strategies have reportedly created billions of dollars of corporate tax savings, resulting in the same amount of lost governmental tax revenue.[1] Organizations such as Americans for Tax Fairness and Tax Justice Network have increased the public's awareness of the negative effects of tax avoidance, shaming corporations who use aggressive tax strategies. The U.S. government has also provided an opinion, referring to aggressive tax strategies as "frivolous tax schemes" that "threaten the U.S. tax system's integrity if honest taxpayers believe that others do not pay their fair share of tax" (GAO, 2011). Echoing this concern, the former Internal Revenue Service Commissioner, Doug Shulman, was quoted as saying, "the general public has little tolerance for overly aggressive tax planning that can be viewed as corporations playing tax games" (Shulman, 2009).

However, it is unclear whether Shulman's claim is accurate. If the public believes companies harm society by shirking their tax obligations and not paying their perceived fair share of the tax burden, then engaging in such strategies will harm corporate reputation. On the other hand, if the public believes that companies have an obligation to their shareholders to maximize profits by minimizing taxes paid, then tax avoidance may not result in reputational damage. The extant academic literature on this issue is mixed, providing support for both ideas. Surveys of corporate tax executives suggest that they overwhelmingly believe that discovery of

[1] A recent U.S. Government Accountability Office (GAO) study reported two-thirds of U.S. corporations did not pay federal income tax between 2006 and 2013. Additionally, the GAO reported that 42.5% of large corporations paid no federal income taxes in 2012, and nearly 20% of these large corporations reported profitable financial statements (GAO, 2016).

aggressive tax strategies will negatively affect a company's reputation, resulting in loss of customers, investors, and quality employees (Austin & Wilson, 2017; Dyreng, Hoopes, & Wilde, 2016; Graham, Hanlon, Shevlin, & Shroff, 2014). However, prior archival studies do not consistently find companies experience reputational losses when aggressive tax strategies are discovered and reported publicly (Gallemore et al., 2014; Hanlon & Slemord, 2009; Kubick et al., 2009; Wilson, 2009).

I conduct an experiment that provides more definitive empirical evidence on how the public reacts when they learn that a company has engaged in an aggressive tax avoidance strategy. Specifically, in my first experiment, I ask 294 members of the general public to evaluate a company's reputation before and after learning the company used a tax strategy to avoid $2 billion in taxes. The experiment has a 2 X 3 design, where I vary the tax-avoiding company's prior reputation at two levels (Positive, Negative) and specific features of the tax avoidance strategy at three levels (Legal/Consistent with Law's Intent, Legal/Inconsistent with Law's Intent, Illegal/Inconsistent with Law's Intent).

I hypothesize that companies will experience reputational damage after news of aggressive tax avoidance. I find strong support for this general hypothesis: aggressive tax avoidance appears to harm corporate reputation when the public learns of the avoidance. I also hypothesize that companies with a negative prior reputation will suffer greater reputational losses from aggressive tax avoidance than companies with a positive prior reputation. However, my results show, if anything, an opposite effect: companies with a positive prior reputation appear to suffer greater losses than those with a negative prior reputation. I also predict that tax avoidance will be viewed less negatively if it is legal (versus illegal) and if it is consistent with the tax law's intent (versus inconsistent with the tax law's intent). Surprisingly, I find that the public does not punish companies significantly more for engaging in illegal tax avoidance strategies, but it does punish companies for engaging in legal strategies that do not follow the law's intent. Finally, I correctly predict that any reputational losses suffered as a result of tax avoidance strategies will lead to changes in the public's intended behaviors toward the company. Specifically, I predict and find that when reputation suffers, people indicate that they are less willing to invest in the company's stock, less willing to seek employment with the company, and less willing to use and/or purchase the company's products.

My second experiment examines a separate, but related, question: do experienced tax professionals accurately predict the reputation consequences that companies experience when the public becomes aware of aggressive tax avoidance? I hypothesize that tax professionals' education and experience provides a level of expertise that allows them to accurately anticipate the public's reactions to news of aggressive tax avoidance. In Experiment 2, I ask 33 manager- and partner-level tax professionals to view the same news articles provided to participants in Experiment 1. The tax professionals then predict how the public will rate the tax-avoiding company's reputation. I compare tax professionals' predictions about corporate reputation with the actual reputation responses from Experiment 1. My results suggest that tax professionals anticipate reputational damage, yet somewhat underestimate the extent of the damage companies experience after news of aggressive tax avoidance. However, my small Experiment 2 sample size indicates that these findings should be treated as exploratory.

My study's results contribute to both practice and theory. From a practical perspective, these results demonstrate that if the public becomes aware of aggressive tax avoidance strategies, then the tax-avoiding companies will experience reputational losses. Further, these reputational losses appear to make the public less willing to associate with the company, in terms of their investment, purchase, and employment decisions. These findings are informative to companies as they weigh the obvious and immediate monetary benefits of aggressive tax avoidance against potential future reputation costs. My study's results also contribute to the academic literature by helping to reconcile conflicting results of prior studies that have investigated the reputational consequences of aggressive tax avoidance. There are two possible explanations for this conflict. One explanation is that negative reputation consequences have not been detected in prior studies because of limitations in this type of archival research. Alternatively, negative reputation consequences exist, but they have not been observed empirically because firms and their advisors correctly anticipate damaging situations and only engage in tax avoidance when it is not expected to harm reputation. With my first experiment, I directly measure the public's perception of a company's reputation before and after news of tax avoidance to determine if the news does damage a firm's reputation. My second experiment allows me to determine if tax professionals' predictions about the reputational consequences of tax avoidance strategies are accurate.

The rest of the paper is organized as follows. Section II provides theoretical development for my predictions. Sections III and IV describe the method and results for Experiment 1 and Experiment 2, respectively, and Section V concludes.

II. THEORETICAL AND HYPOTHESIS DEVELOPMENT

A company's financial motivation to engage in an aggressive tax avoidance strategy is undeniable: tax avoidance strategies ultimately result in lower taxes and higher reported profits. However, aggressive tax strategies can also result in negative effects to corporate reputation

(Harpaz, 2013; Kocieniewski, 2011).[2] That is, if the public believes that companies who avoid taxes are shirking their responsibility to society by not paying its fair share of the nation's tax burden, they may view the company and its products and services negatively.[3] Thus, when companies make decisions about whether to engage in tax avoidance strategies, they must weigh the potential tax savings against the responsibility to all corporate stakeholders and the potential for reputational damage (Freeman, 1999).

Interestingly, prior research on the reputation consequences of tax avoidance is mixed. Some empirical studies observe negative reputation effects after press coverage of tax avoidance, and other studies show no reputational consequences from tax avoidance. Specifically, Hanlon and Slemrod (2009) find that after the public receives news of aggressive tax avoidance, there is an immediate stock price decline. They argue that this decline is due to the market punishing the company reputationally for aggressive tax avoidance. Gallemore et al. (2014) replicate Hanlon's findings, demonstrating the same immediate negative market reaction to public disclosure of tax avoidance. However, Gallemore et al. (2014) also examine additional reputation consequences using a number of additional proxies for corporate reputation. Specifically, they measure the company's reputation with employees (CEO, CFO, and auditor turnover), the company's reputation with customers (sales, sales growth and advertising expense), the company's reputation with the business media (rank on *Fortune's* "Most Admired Companies" list), and the company's reputation with tax authorities (effective tax rate). Gallemore et al. (2014) do not observe negative reputational consequences from tax avoidance for any of these additional

[2] Consistent with Gallemore et al. (2014), I define reputation as a general perception that all interested stakeholders have of the company based on past events.

[3] Note that there is also the potential for negative reputation consequences from not engaging in aggressive tax avoidance, if the public believes that the company is shirking its responsibility to corporate shareholders to maximize profits (Friedman, 2007).

corporation reputation measures. Thus, prior archival studies do not provide a clear understanding of whether companies actually suffer reputational damage from tax avoidance.

These archival studies suffer from a number of limitations that may explain their mixed findings. First, the sample of discovered avoidance cases is small, because tax payment disclosure is not required and U.S. tax returns are not publicly available (Gallemore et al., 2014; Graham et al., 2014). Second, corporate reputation reflects stakeholders' perceptions of the company. Archival researchers are not able to directly elicit perceptions from stakeholders, instead, they must rely on rough proxies for these perceptions. My study uses an experimental method, allowing me to directly measure beliefs about the company (i.e., reputation) before and after the public is made aware of the company's aggressive tax avoidance strategies.

Despite these mixed findings, I expect companies to incur reputational damage when the public becomes aware they engaged in tax avoidance strategies. I base this prediction on prior literature that examines how corporate tax executives think about the reputational consequences of tax strategies. Graham et al. (2014) surveyed 595 tax executives and found that 70% of them considered reputation consequences as an "important" or "very important" factor in their tax strategy decisions. Similarly, Ernst & Young surveyed 830 corporate tax and finance executives and 89% of respondents indicated they were "somewhat" or "significantly" concerned about media coverage regarding taxes. This was a 72% overall increase since 2011, suggesting that reputation concerns are becoming an increasingly important factor in tax strategy decisions, perhaps due to the increase in advocacy groups and prevalence of media coverage (EY, 2014).[4] Further, companies with high levels of perceived corporate social responsibility (Lanis & Richardson, 2012) and companies with valuable brands (Austin & Wilson, 2016) are less likely

[4] Hanlon & Slemrod (2009) also report that some executives evaluate how news of aggressive avoidance would look in newspaper headlines as a considering factor of their strategy decisions.

to engage in aggressive tax strategies, presumably because tax executives at these companies are especially motivated to avoid negative reputation consequences. In a similar vein, Dyreng et al. (2016) find that companies are less likely to employ aggressive tax strategies as public scrutiny of tax avoidance increases. Taken together, these studies provide strong support for the idea that tax executives *believe* aggressive tax strategies negatively affect corporate reputation, despite the lack of direct empirical evidence of *actual* reputational damage from tax avoidance.

I predict that tax executives, who regularly make decisions about tax strategies and view the subsequent consequences associated with these avoidance strategies, are correct to worry that companies will incur reputational damage if the strategies become public knowledge. In my experiment, I directly measure a company's reputation with the general public. I expect to observe negative reputation effects when the public learns that a company has engaged in aggressive tax avoidance. I formalize this reasoning in the following alternative-form hypothesis:

> ***Hypothesis 1:*** *Companies will incur reputational damage if the general public learns that they have engaged in tax avoidance strategies.*

In my first hypothesis, I predict that companies will generally suffer reputational damage after news of aggressive tax avoidance. My next three hypotheses extend Hypothesis 1 by predicting how features of a tax-avoiding company (Hypothesis 2) and features of a tax strategy (Hypotheses 3 and 4) might influence the amount of reputational damage a company will incur after news of tax avoidance.

Research in the field of psychology suggests that a company's prior reputation will influence how the public reacts to its subsequent actions. Specifically, prior psychology studies find that people are generally more critical of evidence that *contradicts* their prior beliefs than they are of evidence that *confirms* their prior beliefs (Klayman & Ha, 1987; Lord, Ross, &

Lepper, 1979). Applying these findings to my study, I expect that when the public views a company positively, then they will be more skeptical of, and thus less influenced by, news that the company aggressively avoided taxes.[5] Conversely, when the public views a company negatively, they will more readily accept the notion that the company engaged in a "bad" behavior like aggressive tax avoidance. As a result, companies that engage in tax avoidance will experience greater reputational damage if they have a negative prior negative reputation than if they have a positive prior reputation. I formalize this reasoning in the following alternative-form hypothesis:

> ***Hypothesis 2:*** *Companies with negative prior reputations will incur greater reputational damage than companies with positive prior reputations if the general public learns that they have engaged in tax avoidance strategies.*

Tax strategies vary in aggressiveness. Hanlon and Heitzman (2010) provide an aggressiveness continuum for evaluating a tax strategy's aggressiveness. This continuum is useful when thinking about how various strategy features might influence reputational damage if the public learns about the tax avoidance. On one end of the continuum houses nonaggressive strategies that are undoubtedly legal and follow the law's intent, such as tax-exempt municipal bond interest. On the other end of the continuum are highly aggressive strategies, often considered "abusive," which are adopted for the sole purpose of avoiding tax obligations. An example of a highly aggressive strategy is corporate-owned life insurance taken out on employees who do not possess management duties, where the company collects death benefits upon the employee's death (Gallemore et al., 2014).

[5] They might even view the tax avoidance in a positive light (i.e., as the corporation's responsibility to maximize shareholder wealth) (Friedman, 2007).

As aggressiveness increases, tax strategies run the risk of becoming inadvertently illegal, which is typically discovered by tax authorities post hoc through an IRS audit.[6] If a company is considering an aggressive tax avoidance strategy, it should be knowledgeable of all potential risks associated with the strategy. Most obvious is the risk that the evasion will be detected and severely penalized by the tax authorities. Less obvious is the potential reputational risk that a company will face if caught evading tax in an illegal manner.

The extant tax literature does not provide much, if any, empirical evidence on how a tax strategy's legality influences subsequent reputational damage. The likely reason for this gap in the literature is that prior studies in this area generally use archival data. Archival methods make it difficult to measure reputation and to isolate the reputation consequences of specific tax strategy features because of the large number of dimensions on which tax strategies vary. My experimental method allows me to directly measure reputation and to hold constant features other than the tax strategy's legality.

Research in non-tax domains finds that people use existing rules and laws to help them judge the morality of behavior (Kirchler, Maciejovsky, & Schneider, 2003; Tyler, 2006) and view people and companies that engage in illegal activities negatively (Baucus & Baucus, 1997; Karpoff & Lott, 1993; Mishina, Dykes, Block, & Pollock, 2010; Williams & Barrett, 2000). For example, prior research compares perceptions of marijuana use in states where it is legal and illegal, finding that people view marijuana use more negatively when it is illegal (Carliner, Brown, Sarvet, & Hasin, 2017). I expect people to use legality as a cue for "good" or "bad" behavior in the tax domain as well. In other words, I predict that if a company's tax avoidance strategy is illegal, the company will incur greater reputational damage than if the same strategy

[6] Slemrod (2004) defines corporate tax noncompliance: "corporation income tax that legally is owed but is not reported or paid."

were legal, because the public will view an illegal tax strategy more negatively. I formalize this reasoning with the following alternative-form hypothesis:

> ***Hypothesis 3:*** *Companies will incur greater reputational damage if the general public learns that the company engaged in illegal tax avoidance strategies than if the public learns that the company engaged in legal tax avoidance.*

Hanlon and Heitzman's (2010) tax aggressiveness continuum is also useful when thinking about how a strategy's consistency with the tax law's intent might influence the public's reaction. This continuum suggests that even a legal avoidance strategy may be perceived as aggressive if it violates the intent or 'spirit' of the law. For example, Payne and Raiborn (2018) argue that aggressive tax behavior, which intentionally ignores the law's intent and reduces payment of a company's fair share of the national tax burden is not appropriate. Thus, it is possible that the public will view legal strategies that are inconsistent with the law's intent positively because they believe the company's primary responsibility is to minimize tax and maximize shareholder value (Friedman, 2007). Though I think it is more likely that the public will perceive strategies that are inconsistent with the law's intent as evidence that managers are willfully shirking their responsibility to society and not paying their fair share of tax (Freeman, 1999).[7] In support of this idea Antonetti and Maklan (2016) conducted a study, outside the tax domain, of public outrage to news of two different corporate behaviors. One of the behaviors investigated was tax avoidance. Results demonstrate that participants consider tax strategies that are legal but inconsistent with the intent of the law to be overly aggressive and irresponsible.[8] I

---

[7] According to Kirchler, Hoelzl, & Wahl (2007), the measurement of fair share is subjective and dependent, in large part, on one's perception of justice. A majority of U.S. residents are obligated to pay tax. Due to this similarity between corporations and individuals, if the media reports a large, beneficial corporate tax strategy, then the corporation runs the risk that the public will compare the reported tax savings to their own, personal tax obligations. It is possible this comparison will have an adverse effect on corporate reputation because the public perceives this as unfair.

[8] The second behavior measured in the study was an act of non-financial fraud committed by a pharmaceutical company. This fraud was considered by the public to be a more serious violation of corporate moral conduct.

rely on these findings to predict that companies will experience greater negative reputational consequences if their legal tax strategies are inconsistent with the tax law's intent:

> ***Hypothesis 4:*** *Companies will incur greater reputational damage when the general public learns that the company engaged in legal tax avoidance strategies if the strategy does not follow the intent of the law.*

In addition to examining the effect of tax avoidance on corporate reputation, I also examine whether these reputation consequences, in turn, affect how stakeholders interact with the company. In other domains, reputation influences the public's willingness to invest in the company's stock, their willingness to use and/or purchase the company's products, and the strength of their desire to be employed by the company (Fombrun, 1996; Fombrun & Shanley, 1990; Gallemore et al., 2014; Hall, 1993; Ponzi, Fombrun, & Gardberg, 2011; Roberts & Dowling, 2002). My experiment does not allow me to collect data on actual investment, purchase, or employment behaviors. Thus, I measure the public's *intended* behaviors toward the tax-avoiding company.

There are two competing effects that might influence how tax avoidance impacts the public's willingness to invest in the company's stock. On one hand, tax avoidance results in lower taxes paid and thus higher profits, which should make the company a more appealing investment. Profitability, however, is not the only indicator of future investment behavior. Shareholders also value non-financial performance, or reputation, when making their investment decisions (Raithel & Schwaiger, 2015). Indeed, reputation-damaging events, such as news of aggressive tax avoidance, may make the public less likely to want future involvement with the tax-avoiding company (Rhee & Valdez, 2009). Although aggressive tax avoidance generates

---

Interestingly, the authors choose corporate tax avoidance because tax strategies can be considered legal, yet violate the law's intention (Antonetti & Maklan, 2016).

higher profits, I predict the negative reputational effects incurred after news of an aggressive tax avoidance strategy will deter future investment in the company. I formalize this reasoning in the following alternative-form hypothesis:

> ***Hypothesis 5a:*** *When companies incur reputational damage related to tax avoidance strategies, these reputation effects will make the public less willing to invest in the company's stock.*

Turning next to the effects of aggressive tax avoidance on employment decisions, I predict that reputational damage caused by tax avoidance will make people less interested in being employed by the tax-avoiding company. I base this prediction on prior literature that suggests that corporate reputation plays a crucial role in people's willingness to work at a company. Specifically, employees, both potential and current, place value in a company's positive reputation when making employment decisions (Chauvin, & Guthrie, 1994; Stigler, 1962) and positive reputation helps attract and retain employees (Roberts & Dowling, 2002). This leads to the following alternative-form hypothesis:

> ***Hypothesis 5b:*** *When companies incur reputational damage related to tax avoidance strategies, these reputation effects will make the public less interested in employment with the company.*

Similarly, I expect the negative reputation consequences stemming from tax avoidance strategies to reduce people's willingness to use or purchase the company's products. Prior studies find that corporate reputation influences customers' willingness to buy the company's products, their product loyalty, and their level of satisfaction with the company's products (Goldberg & Hartwick, 1990; Raithel & Schwaiger, 2015; Rao, Agarwall, & Dahloff, 2004; Shapiro, 1983). Within the tax domain, prior research suggests that consumer product firms with strong brand recognition engage in less aggressive tax strategies, likely in an effort to protect their valuable reputations (Austin & Wilson, 2017; Kubick et al., 2015). This leads to the following alternative-form hypothesis:

> ***Hypothesis 5c:*** *When companies incur reputational damage related to tax avoidance strategies, these reputation effects will make the public less willing to use and/or purchase the company's products.*

When companies make decisions about the aggressiveness of their tax strategies, they often rely on the expertise of tax professionals to provide guidance on the costs and benefits of different strategies (Dyreng & Lindsey, 2009; Engel, Erickson, & Maydew, 1999; Gallemore et al., 2014; Wilson, 2009). In order to give good advice to their clients, tax professionals must have an accurate understanding of all potential risks associated with tax avoidance strategies, including reputation risks. Thus, in addition to examining the reputation consequences of tax avoidance, my study also examines whether tax professionals accurately anticipate these consequences.

Certified tax professionals (CPAs and EAs) have extensive education and experience requirements (Hunter, 1983; Schmidt, Hunter, Outerbridge, & Goff, 1988). By the time tax professionals advance to levels within their firms where they are providing clients with advice on tax strategies, they generally have many years of experience and feedback from observing the risks as well as the actual benefits and costs of different tax strategies. This knowledge and experience should provide tax professionals with requisite expertise to accurately predict potential reputation consequences their clients could experience if the public became aware of the client's tax avoidance strategies. This leads to the following hypothesis:

> ***Hypothesis 6:*** *Public tax professional will accurately predict changes in the public's perception of corporate reputation after news of aggressive tax avoidance.*

III. EXPERIMENT 1

My first hypothesis predicts that companies who engage in tax avoidance will suffer negative reputational consequences. I further predict that (a) a company's prior reputation and features of the tax avoidance strategy will affect the amount of reputational damage (Hypotheses 2 through 4), and (b) these reputation changes will influence the public's willingness to purchase the company's products and to invest in or work for the company (Hypothesis 5). To test these hypotheses, I conduct an experiment in which members of the U.S. general public evaluate a company's reputation both before and after reading a news article about a company being investigated for a transfer pricing tax strategy that avoided $2 billion in U.S. taxes by moving profits offshore.[9] I vary whether the company that avoided taxes had a positive prior reputation (Google) or a negative prior reputation (Exxon Mobil) and whether the tax avoidance strategy was consistent with letter of the law and/or the intent of the tax law. Additional methodological details about the experimental participants and design are provided below. To view the full set of Experiment 1 materials, see Appendix B.

Experiment 1 Participants

Experiment 1 participants were 294 English-speaking U.S. residents at least 18 years of age.[10] I recruited participants using Cint, a company that specializes in finding online workers

[9] The strategy reported is loosely based on the Double Dutch with an Irish Sandwich planning strategy, which is an actual tax avoidance strategy utilized by many U.S. companies (Duhigg & Kocieniewski, 2012). This strategy uses international tax law and transfer pricing to significantly reduce tax obligations by transferring income earned in the United States to Ireland through a series of complex financial statement transactions. To avoid tax, income is finally transferred to a country with little or no corporate tax obligations. This strategy was chosen because of the ambiguity in the perception of the legality and intent of the transaction. It is complex and the economic substance of this transaction is questionable. Hanlon and Heitzman (2010, pg. 28) suggest strategies similar to this "push the envelope" of tax law.

[10] The initial sample included 633 participants, 41 responses were immediately eliminated because they had the same response for every question and missed both manipulation check questions. The full sample size was 592, 49.7% of this sample was eliminated in my primary analyses because participants failed at least one of the two manipulation check questions. Prior literature on the use of online workers in accounting research suggests that some online workers are "speeders" who complete experimental tasks extremely quickly and pay insufficient attention to task details (Smith, Roster, Golden, & Albaum, 2016). I provide supplemental analyses at the end of

for surveys and experiments.[11] Participants took an average of 8.5 minutes to complete the experiment and received compensation between $0.75 and $1.25 from Cint. Participants were 75% female, with ages ranging from 18 to 67, a mean age of 45, and 53% were married. Participants self-assessed their political beliefs as follows: Extremely liberal (6%), Liberal (15%), Somewhat liberal (14%), Neither liberal nor conservative (33%), Somewhat conservative (12%), Conservative (12%), and Extremely conservative (8%). Participants also indicated the highest level of education they had completed: High School (34%), 2-year college (18%), 4-year college (30%), master's or other professional degree (13%), and other (5%).

Experiment 1 Design

The first experiment used a 2 x 3 between-subjects design that manipulated the company's *Prior Reputation* at two levels (*Positive Prior Reputation, Negative Prior Reputation*) and the company's *Tax Strategy* at three levels (*Legal/Consistent with Law's Intent, Legal/ Inconsistent with Law's Intent, Illegal/Inconsistent with Law's Intent).*[12]

Independent Variables. To manipulate *Prior Reputation*, I varied the company that engaged in the tax avoidance strategy. To identify companies with positive prior reputation and negative prior reputation, I conducted a separate pre-test. I first identified ten well-known U.S.

Section III to discuss how the hypothesis test results differ when I include all participants' responses. I feel it is reasonable to predict the same consequences with the full sample. It is likely participants that did not successfully complete both questions correctly did, at a minimum, quickly read the newspaper headline and gave some consideration to the tax avoidance news (Dor, 2003).

[11] www.cint.com, Cint is a platform based online insight exchange with more 1,800 panels and access to over 40 million panelists. Based on qualifying characteristics of the project, email requests for participation are sent directly to panelists that meet qualifying criteria.

[12] I do not include an *Illegal/Consistent with Law's Intent* condition because in practice, there are few, if any, tax strategies that would fall into this category.

companies from The Harris Poll-2017 Reputation Quotient® Rankings.[13, 14] Five "positive reputation" companies were chosen from among the top twenty companies listed in the 2017 rankings: Amazon.com, Apple, Google, Johnson & Johnson, and Walt Disney. Four "negative reputation" companies were selected from the bottom twenty companies listed in the 2017 rankings: Comcast, Exxon Mobil, United Airlines, and Wells Fargo.[15] After identifying these ten companies, I asked 50 Mechanical Turk workers to rate each company's reputation for corporate citizenship on a 9-point Likert scale, endpoints labeled *Strongly Agree (1)* and *Strongly Disagree (9)*. Google received the most positive mean reputation rating (4.1) and Exxon Mobil received the least positive mean reputation rating (7.0).[16] Based on this pre-test survey, I use Google [Exxon Mobil] as the company for my *Positive Prior Reputation* [*Negative Prior Reputation*] condition.

To manipulate *Tax Strategy* (*Legal/Consistent with Law's Intent*, *Legal/ Inconsistent with Law's Intent*, and *Illegal/Inconsistent with Law's Intent*), I varied the wording of a tax expert's opinion on the legality and intent of the tax avoidance strategy within the news article.

In the *Legal/Consistent with Law's Intent* condition, the news article includes the following paragraph (***emphasis added***):

---

[13] https://theharrispoll.com/reputation-quotient/. Company (ranking) in alphabetical order: Amazon.com (1), Apple Inc. (5), Comcast Corporation (90), Exxon Mobil Corporation (87), Google Inc.(8), Johnson & Johnson (4), Phillip Morris USA (an Altria Company) (not rated), The Walt Disney Company (7), United Airlines (82), and Wells Fargo & Company (99).

[14] Manipulating Prior Reputation using real companies makes the study more externally valid and allows for a strong manipulation by ensuring that participants have well-developed prior beliefs about the firms. However, manipulating Prior Reputation this way sacrifices some experimental control because the two firms differ on other dimensions as well. That is, it is possible that the Google and Exxon Mobil differ on another dimension that influences how the public reacts to information about the company's tax strategies.

[15] Note that I did not simply use the top-5 and bottom-5 companies on the ranking list because I wanted to focus on companies that I believed had broad name recognition. A Phillip Morris USA (an Altria Company) was selected as a company, although not in the rankings, because negative feelings toward the tobacco company are common.

[16] Results of a second related question also suggest that Google [Exxon Mobil] is the company with the most [least] positive reputation. Specifically, participants were asked to list the one company they found to be the *BEST* corporate citizen and the one company they found to be the *WORST* corporate citizen, which is known to be another measure of reputation (Fombrun, Gardberg, & Barnett, 2000). Google was the company participants most often selected as the *BEST* corporate citizen (21%) and Exxon Mobil was the company most often selected as *WORST* citizen (38%). Full text of the pre-test survey is available in Appendix A.

> *When asked about XX's tax avoidance strategies, Seton Hall University tax professor, Dr. Ted Lorse stated that, "Tax law is incredibly complex, making it difficult to interpret and apply. My opinion is that XX's strategies are* ***technically legal****, in that they* ***do satisfy the letter of 2015 U.S. tax laws.****" Lorse continued, "These strategies* ***do appear to be consistent with the 'spirit,' or intent, of 2015 tax laws****. This suggests that corporations utilizing these complex transactions* ***are not shirking on their 'fair share' of our country's tax burden.****"*

In the *Legal/Inconsistent with Law's Intent* condition, the news article instead includes the following paragraph (***emphasis added***):

> *When asked about XX's tax avoidance strategies, Seton Hall University tax professor, Dr. Ted Lorse stated that, "Tax law is incredibly complex, making it difficult to interpret and apply. My opinion is that XX's strategies are* ***technically legal****, in that they* ***do satisfy the letter of 2015 U.S. tax laws.****" Lorse continued, "However, these strategies* ***do not appear to be consistent with the 'spirit,' or intent, of 2015 tax laws.*** *This suggests that corporations utilizing these complex transactions* ***are shirking on their 'fair share' of our country's tax burden.****"*

Finally, in the *Illegal/Inconsistent with Law's Intent* condition, the news article includes the following paragraph (***emphasis added***):

> *When asked about XX's tax avoidance strategies, Seton Hall University tax professor, Dr. Ted Lorse stated that, "Tax law is incredibly complex, making it difficult to interpret and apply. My opinion is that XX's strategies are* ***technically illegal****, in that they* ***do not satisfy the letter of 2015 U.S. tax laws****." Lorse continued, "These strategies also* ***do not appear to be consistent with the 'spirit,' or intent, of 2015 tax laws****. This suggests that corporations utilizing these complex transactions* ***are shirking on their 'fair share' of our country's tax burden****."*

Dependent Variables. Two sets of dependent measures captured the public's beliefs about the company's reputation. The first set of variables is drawn from validated corporate reputation scales (Ponzi et al., 2011; Walker, 2010) and directly measure reputation. Both before (pre-test) and after (post-test) reading the news article, participants in the *Positive* [*Negative*] *Reputation* conditions evaluated the following statements: (1) *Google [Exxon Mobil] is a company I trust*, (2) *Google [Exxon Mobil] is a company that I admire and respect*, (3) *I have good feelings about Google [Exxon Mobil]*, and (4) *Google [Exxon Mobil] has a positive reputation*. Participants also assessed whether (5) *Google [Exxon Mobil] is a good corporate* *citizen.* Participants indicated their level of agreement with each statement on a Likert scale with endpoints labeled *Strongly Disagree (1)* and *Strongly Agree (7).* The Cronbach's alpha for the five pre-test items and the five post-test items are both above the 0.70 threshold, suggesting that each measure captures one pre-test construct and one post-test construct (Nunnally & Bernstein, 1994). I therefore average participants' responses to the questions and refer to these summary measures separately as pre-test and post-test *Perceived Reputation.*

The second set of variables capture participants' future behavior intentions that may be impacted by changes in perceived reputation. Specifically, participants evaluate the following statements: (1) *I am willing to use Google's [Exxon Mobil's] products*, (2) *I am willing to invest in Google's [Exxon Mobil's] stock*, and (3) *I would like to be employed by Google [Exxon Mobil]*. Participants indicated their level of agreement with each statement on a Likert scale with endpoints labeled *Strongly Disagree (1)* and *Strongly Agree (7).* After answering the post-test perceived reputation and behavioral intention questions, participants answered a series of demographic and check questions.

Experiment 1 Results

Manipulation Checks. To check the *Prior Reputation* manipulation, I analyzed participants' pre-test *Perceived Reputation* responses. Table 1 shows that Google's pre-test *Perceived Reputation* (μ = 5.6) is significantly greater than Exxon Mobil's pretest *Perceived Reputation* (μ = 4.3) ($F_{1,292}$ = 66.20, $p < 0.01$). Further, Table 2 shows that, before viewing the experimental manipulations, participants are more likely to want to invest in Google ($F_{1,292}$ = 24.20, $p < 0.01$), to be employed by Google ($F_{1,292}$ = 29.51, $p < 0.01$), and to use Google's products ($F_{1,292}$ = 41.75, $p < 0.01$). Taken together, these results indicate a successful manipulation of *Prior Reputation.*

INSERT TABLE 1 AND TABLE 2 HERE

To check the *Tax Strategy* manipulation, I asked participants to answer two check questions after providing post-test reputation assessments. Specifically, participants indicated (1) whether the tax expert stated that Google's [Exxon Mobil's] tax strategy was "*technically consistent with U.S. tax laws (i.e., legal)"* or "*technically inconsistent with U.S. tax laws (i.e., illegal)"* and (2) whether the expert stated that Google's [Exxon Mobil's] tax strategy was *"consistent"* or *"inconsistent"* with the tax law's intent. I find that 30% [38%] of participants failed the first [second] *Tax Strategy* manipulation check. Consistent with other accounting studies that use online workers, my primary analyses focus only on the 294 participants who passed both manipulation check questions (Buchheit, Doxey, Pollard, & Stinson, 2017). Supplemental analyses that include all 592 participant responses are provided at the end of this section.

Tests of Hypotheses 1 through 4. Recall that Hypothesis 1 predicts that companies who engage in tax avoidance strategies will be perceived as less reputable. Hypotheses 2 through 4 extend this first hypothesis, predicting specific company and strategy factors affect the size of these negative reputation effects. Specifically, these hypotheses predict that the negative reputation consequences from tax avoidance will be larger when the company has a less favorable prior reputation (Hypothesis 2) and when the tax strategy is illegal (Hypothesis 3) and/or inconsistent with the intent of the tax law (Hypothesis 4).

Underlying my Hypothesis 1 prediction is the assumption that the public believes that companies have an obligation to pay taxes. To test this assumption, I asked participants to indicate their beliefs about corporations' primary responsibility related to taxes. Specifically, participants were asked, *"When Google's [Exxon Mobil's] management is faced with a decision about its tax strategies, two competing responsibilities must be considered – their responsibility* *to minimize taxes and maximize profits and their responsibility to be a good corporate citizen by paying their 'fair share' of taxes. Google's [Exxon Mobil's] primary responsibility should be:"* Participants had to choose between two responses labeled, "*Good corporate citizenship (paying their 'fair share')"* and "*Minimize tax (maximize profits)."* Seventy-four percent of participants believed that the company's primary responsibility was to pay their fair share of U.S. taxes. Given the relative importance that people place on corporations paying taxes, I expect them to react negatively when companies employ large tax avoidance strategies.

Hypothesis 1 predicts that corporations will experience negative reputation consequences if the public discovers the company has engaged in tax avoidance strategies. To capture negative reputational consequences, I first calculate a *Perceived Reputation* difference score for each participant by subtracting their post-test *Perceived Reputation* measure from their pre-test *Perceived Reputation* measure. I then examine whether these difference scores significantly differ from zero. When I collapse across all conditions, I find that the mean difference score is -1.3, which is significantly less than zero ($t = -14.06$, $p < .01$). Panel A of Table 3 shows that the mean difference scores in the six conditions range from a low of -0.9 to a high of -2.0. All mean difference scores are significantly less than zero (all $p < 0.01$). Thus, the results provide strong support for Hypothesis 1: the U.S. general public perceives a company as less reputable when the company employs aggressive tax avoidance strategies.

INSERT TABLE 3 HERE

Recall that Hypothesis 2 predicts that companies with negative prior reputations will incur more reputation damage when the public learns that they engaged in tax avoidance. To test Hypothesis 2, I compare mean *Perceived Reputation* difference scores across the *Positive* and *Negative Prior Reputation* conditions. Table 3 shows that the *Positive Prior Reputation* company incurred greater reputation damage ($\mu = -1.4$) than the *Negative Prior Reputation* company ($\mu = -1.1$) ($F_{1, 288} = 3.48$, $p = 0.06$). In other words, when Google and Exxon Mobil employ the same tax avoidance strategy, Google incurs more reputational damage. This observed pattern is the opposite of that predicted in Hypothesis 2. One possible explanation for this result is that the public reacts more when a corporation's behavior deviates from the public's expectations of the corporation. For example, Google was generally viewed as being a "good" company prior to the tax avoidance news, so the public may be more surprised (and thus react more negatively) when Google engages in a "bad" behavior.

Hypothesis 3 predicts that the public will react more negatively when companies engage in illegal tax avoidance strategies. The ANOVA results reported in Table 3 suggest that features of the company's *Tax Strategy* affect the reputational consequences of tax avoidance ($F_{2, 288} = 4.25$, $p < 0.05$). To isolate the effects of the strategy's legality, I compare mean difference scores in the *Legal/Inconsistent with Law's Intent* and *Illegal/Inconsistent with Law's Intent* condition, because these two conditions are identical other than the legality of the tax avoidance strategy. This comparison shows that the reputational damage is greater when the avoidance strategy is illegal ($\mu = -1.6$) than when it is legal ($\mu = -1.4$), although this difference is not statistically significant ($t = 0.86$, $p = 0.39$). Thus, the results do not support Hypothesis 3.

Hypothesis 4 predicts that the public will react more negatively when companies engage in tax avoidance strategies that are inconsistent with the tax law's intent. To test Hypothesis 4, I compare mean difference scores in the *Legal/Consistent with Law's Intent* and *Legal/Inconsistent with Law's Intent* conditions, because these two conditions are identical other than the intent of the tax avoidance strategy. This comparison shows that companies experience more reputational damage when they employ an avoidance strategy that is legal but inconsistent with tax law's intent ($\mu = -1.4$) than one that is legal and consistent with the law's intent ($\mu = -1.0$) ($t = 2.09$, $p < 0.05$), in support of Hypothesis 4.

Test of Hypotheses 5. Hypothesis 5 predicts that any negative reputation effects stemming from tax avoidance strategies will, in turn, influence the public's investment-related, employment-related, and purchase-related intentions toward the tax-avoiding company. I first examine changes in participants' willingness to invest in the company's stock after learning about the company's tax avoidance. Untabulated regression results show that changes in *Perceived Reputation* are a significant predictor of changes in participants' willingness to invest ($t = 15.86$, $p < 0.01$). Further analysis (see Table 4) shows that my Hypothesis 1 findings for *Perceived Reputation* are confirmed in the *Investment* difference scores. That is, the overall mean *Investment* difference score of -0.9 is significantly less than zero ($t = -8.81$, $p < 0.01$), suggesting that participants are generally less willing to invest in a tax-avoiding company's stock. Indeed, the individual difference scores within each experimental condition, which range from -0.5 to -1.5, are all significantly less than zero (all $p < 0.05$).

INSERT TABLE 4 HERE

Next, I examine participants' willingness to seek employment with the company after learning about its tax avoidance. Untabulated regression results show that changes in *Perceived Reputation* are a significant predictor of changes in participants' willingness to seek employment ($t = 16.36$, $p < 0.01$). Further analysis (see Table 5) shows that my Hypothesis 1 findings for *Perceived Reputation* are confirmed in the *Employment* difference scores. That is, the overall mean *Employment* difference score of -0.8 is significantly less than zero ($t = -8.75$, $p < 0.01$), suggesting that participants are generally less willing to seek employment with a tax-avoiding company. Once again, the individual difference scores within each experimental condition, which range from -0.5 to -1.5, are all significantly less than zero (all $p < 0.05$).

INSERT TABLE 5 HERE

Finally, I examine changes in participants' willingness to use/purchase the company's product after learning about its tax avoidance. Untabulated regression results show that changes in *Perceived Reputation* are a significant predictor of changes in participants' willingness to use the company's products ($t = 24.09$, $p < 0.01$). Further analysis (see Table 6) shows that my Hypothesis 1 findings for *Perceived Reputation* are confirmed in the *Product Use* difference scores. That is, the overall mean *Product Use* difference score of -1.1 is significantly less than zero ($t = -10.63$, $p < 0.01$), suggesting that participants are generally less willing to purchase products of tax-avoiding companies. Indeed, the individual difference scores within each experimental condition, which range from -0.7 to -1.6, are all significantly less than zero (all $p < 0.01$).

INSERT TABLE 6 HERE

To summarize, Experiment 1 provides strong support for the idea that companies suffer negative reputation consequences after the public learns that they engaged in tax avoidance strategies. Further, these negative reputation effects, in turn, affect the general public's willingness to invest in the company's stock, be employed by the company, and purchase the company's products. Results regarding the effect, if any, that the tax strategy's legality and consistency with the tax law's intent has on reputation consequences are mixed. Surprisingly, the technical legality of the tax strategy does not appear to affect the degree of reputational damage, but strategies that are inconsistent with the intent of the tax law lead to greater reputational damage. Finally, though I expected companies with a negative prior reputation to incur greater reputational damage, it appears that, if anything, the opposite is true. I find that the positive prior reputation company will suffer greater reputational loss, perhaps because the public holds this type of company to a higher citizenship standard.

Experiment 1 Supplemental Analyses

Prior research suggests that some online workers complete experimental tasks quickly without paying sufficient attention to task (Smith et al., 2016). Thus, my prior analyses excluded participants who failed one or more of the tax strategy manipulation checks. However, it is possible that this exclusion criteria excluded not only people who failed to read the materials but also inadvertently excluded some people who read the news article the way they would normally read news articles (i.e., not carefully) (Dor, 2003; Smith et al., 2016). Thus, in the remainder of this section, I also report my full sample analyses using the entire population ($n = 592$).

Similar to my primary analysis to test Hypothesis 1, I find that when I collapse across all conditions, the mean *Perceived Reputation* difference score is -1.1, which is significantly less than zero ($t = -18.12$, $p < 0.01$). Untabulated mean difference scores in the six conditions range from a low of -0.8 to a high of -1.7. All mean difference scores are significantly less than zero (all $p < 0.01$). Thus, this analysis provides additional support for the idea that the public perceives a company as less reputable when the company has engaged in tax avoidance strategies.

In my full sample test of Hypothesis 2, I find that the *Positive Prior Reputation* company incurred slightly greater reputation damage ($\mu = -1.2$) than the *Negative Prior Reputation* company ($\mu = -1.1$), although this difference is not statistically significant ($t = 0.86$, $p = 0.24$). Untabulated full sample ANOVA results suggest that features of the company's *Tax Strategy* affect the reputational consequences of tax avoidance ($F_{2, 586} = 18.85$, $p < 0.01$). Similar to my prior Hypothesis 3 tests, reputational damage is greater when the avoidance strategy is illegal ($\mu = -1.5$) than when it is legal ($\mu = -1.2$), although once again the difference is not statistically significant ($t = 1.48$, $p = 0.41$). My full sample test of Hypothesis 4 shows that companies experience more reputational damage when they employ an avoidance strategy that is legal but inconsistent with the tax law's intent ($\mu = -0.9$) than one that is legal and consistent with the law's intent ($\mu = -1.2$), which is again statistically significant ($t = 2.65$, $p < 0.01$).

Full sample Hypothesis 5 tests confirm that participants are generally less willing to want to invest in a tax-avoiding company's stock, the overall mean difference score of -0.8 is significantly less than zero ($t = -10.81$, $p < 0.01$). Indeed, the individual difference scores within each experimental condition, which range from -0.5 to -1.3, are all significantly less than zero (all $p < 0.01$). Also, full sample tests confirm participants are less willing to obtain employment at a tax-avoiding company, the overall mean difference score of -0.7 is significantly less than zero ($t = -10.52$, $p < 0.01$). Once again, the individual difference scores within each experimental condition, which range from -0.5 to -1.2, are all significantly less than zero (all $p < 0.01$). Finally, full sample tests confirm participants are less willing to want to use and/or purchase products of company, the overall mean difference score of -1.0 is significantly less than zero ($t = -14.13$, $p < 0.01$). The individual difference scores within each experimental condition, which range from -0.7 to -1.4, are all significantly less than zero ($p < 0.01$).

Overall, my supplemental analyses suggest that inferences related to Hypotheses 1 through 5 are identical regardless of whether participants passed or failed the manipulation checks, all participants are included. In both sets of analyses, Hypotheses 1, 4 and 5 are supported and Hypotheses 2 and 3 are not supported.

IV. EXPERIMENT 2

Hypothesis 6 predicts that tax professionals will accurately predict the reputational consequences of aggressive tax avoidance. To test this hypothesis, I conducted an experiment in which experienced tax professionals predicted the general public's reaction to the news article used in Experiment 1. Similar to the first experiment, I vary whether the company that avoided taxes had a positive prior reputation (Google) or a negative prior reputation (Exxon Mobil). I also vary whether the tax avoidance strategy is consistent with the tax law's intent. Additional methodological details about the experimental participants and design are provided below. To view the full set of Experiment 2 materials, see Appendix C.

Experiment 2 Participants

Experiment 2 participants were 33 U.S. tax professionals.[17] To be eligible, participants were required to be either currently or previously licensed as a Certified Public Accountant (CPA) or an Enrolled Agent (EA), have worked a minimum of five years in public accounting, and have reached the level of at least manager. Fifty-five percent of Experiment 2 participants are current tax partners and 27% are current tax managers. The remaining 18% of participants are tax executives and tax managers who are no longer employed in public accounting. On average, participants have 24 years of experience working in the tax field.

Experiment 2 Design

Experiment 2 used a 2 x 2 between-subjects experimental design that manipulated the company's *Prior Reputation (Negative Prior Reputation, Positive Prior Reputation)* and the company's *Tax Strategy (Consistent with Law's Intent, Inconsistent with Law's Intent).*

---

[17] A total of forty-five individuals participated in the experiment, however, twelve responses were eliminated because the participants did not meet eligibility requirements or did not complete the entire task.

Independent Variables. Experiment 2 participants viewed the same news article as in Experiment 1. In other words, similar to Experiment 1, I manipulated *Prior Reputation* by varying the company that engaged in the tax avoidance strategy: Google or Exxon Mobil. I manipulated the company's *Tax Strategy* conditions by varying whether a tax expert described the strategy as *Consistent with Law's Intent* or *Inconsistent with the Law's Intent*. In both *Tax Strategy* conditions, the expert stated that the strategy was legal. Thus, unlike Experiment 1, I did not include a condition where the tax strategy was illegal. I made this choice because tax professionals, who have a fiduciary responsibility to abide by relevant tax laws, would likely find it unrealistic that a client's strategy would be clearly illegal.

Dependent Variables. Tax professionals were asked to predict how members of the general public would rate Google's or Exxon Mobil's reputation both before and after reading the news article about the company's aggressive tax avoidance. Specifically, tax professionals were instructed to, "*Assume that a sample of 100 people from the U.S. general public were provided the following brief description of a well-known U.S.-based company Google [Exxon Mobil]. Please predict how YOU believe 100 people from the general public will respond to the two statements below. Specifically, identify the number of people (out of 100) that you believe would provide each of the possible responses (i.e., Strongly Agree, Agree, Somewhat agree, Neither agree nor disagree, Somewhat disagree, Disagree, Strongly Agree).* Participants evaluated the following statements: "*Google [Exxon Mobil] has a positive reputation*" and "*Google [Exxon Mobil] is a good corporate citizen*."[18] Tax professionals also answered a series of demographic and check questions.

[18] To maximize the number of professionals who were willing to participate, I kept the survey length shorter by asking tax professionals to predict responses to only two of the Experiment 1 reputation questions.

Experiment 2 Results

Hypothesis 6 predicts that tax professionals will accurately anticipate the public's reaction to media reports that a company engaged in aggressive tax avoidance strategies. For both dependent variables, I summarize each professional's mean predicted reputation score by calculating a weighted average score based on their percentage predictions. Recall that the original reputation response scales were 7-point Likert scales with endpoints labeled Strongly Disagree (1) and Strongly Agree (7). Thus, if a tax professional predicted that 25% of participants would choose '2,' 25% would choose '3,' 25% would choose '4' and 25% would choose '5,' that tax professional's average reputation prediction score would equal 3.5. I calculated an average predicted reputation score for each professional's pre-test predictions and a separate score using their post-test reputation predictions. I then computed the tax professional's predicted change in reputation as the difference between average post-test predicted reputation and average pre-test predicted reputation.

I compare tax professionals' *predictions* about reputational change with the *actual* reputational change observed in Experiment 1. Specifically, I calculate a difference score by subtracting each tax professional's predicted reputation change score from the actual average reputation change score from the related condition in Experiment 1 (see Table 3 for the public's actual change scores). When I conduct this analysis on the "*Google [Exxon Mobil] has a positive reputation*" question, I find an overall mean difference score of 0.2. A positive difference score implies that tax professionals tend to underestimate the public's negative reaction to news of aggressive tax avoidance. However, additional analysis shows that this difference is not significantly different than zero ($t = 1.06$, two-tailed $p = 0.30$).

When I do the same type of analyses on the "*Google [Exxon Mobil] is a good corporate citizen*" measure, I once again find that the overall mean difference score after subtracting professionals' predictions from the actual reputation consequences is positive ($\mu = 0.3$). This mean difference score differs from zero ($t = 2.34$, two-tailed $p < 0.05$). This suggests that tax professionals underestimate the reputational damage that companies will incur if the public learns that the company engaged in aggressive tax avoidance strategies. As additional support for this conclusion, 73% [27%] of tax professionals had positive [negative] difference scores for this question, suggesting that tax professionals were much more likely to underestimate than to overestimate the negative reputation effect of tax avoidance.[19]

To summarize, Experiment 2 provides preliminary evidence on tax professionals' ability to predict reputational damage from tax avoidance. My sample size is low, so these results should be interpreted with caution. However, my data provide preliminary evidence suggesting that tax professionals understand that reputational consequences of aggressive tax avoidance exist, but tend to underestimate the consequences, at least for some measures, of corporate reputation.

V. CONCLUSIONS

My study examines whether damage to reputation occurs when the public learns that companies have engaged in aggressive tax avoidance strategies. I find that companies do experience damage to their reputations when the public learns that they engaged in aggressive tax avoidance. These results suggest that the public punishes companies for paying less than their perceived fair share of the tax burden and shirking their obligation to society.

[19] Note that due to the small sample sizes in individual cells, I am unable to make meaningful inferences about the effects, if any, that *Prior Reputation* and *Tax Strategy* have on tax professionals' ability to predict the reputational consequences of tax avoidance. Thus, I do not report ANOVA results for Experiment 2.

I also investigate whether the company's prior reputation influences the public's reaction to tax avoidance news. I hypothesize that the public will react more negatively to tax avoidance if the company has a negative prior reputation, but I observe the opposite. In my experiment, the positive prior reputation company (Google) suffered greater reputational damage than the negative prior reputation company (Exxon Mobil) for engaging in identical tax avoidance strategies. Perhaps this result is due to the public holding "good" companies to a higher standard of conduct. My study also examines how features of tax avoidance strategies influence reputational consequences. I find that illegal strategies do not result in greater reputational damage than legal strategies. However, legal strategies that do not follow the intent of the law result in greater reputational damage than legal strategies that do follow the law's intent.

I am not able to capture whether reputational damage caused by tax avoidance affect actual investment, employment and purchase decisions. However, I ask my experimental participants about their behavioral intentions. Participants indicate that if a company engages in aggressive tax avoidance, they are less likely to invest in the company's stock, less interested in being employed by the company, and less willing to purchase the company's products. These results suggest that reputational damage caused by tax avoidance strategies may lead to more serious long-term effects.

Finally, my study provides preliminary small-sample evidence on whether experienced tax professionals accurately anticipate the public's reaction to news of aggressive tax avoidance strategies. I find that tax professionals are more likely to underestimate than to overestimate the reputational damage caused by such strategies. My study demonstrates that corporate tax executives have reason, at least in the short-term, to be concerned about reputational consequences of tax avoidance. Thus, these results should be informative to tax executives and their advisors as they weigh the benefits, costs, and risks of various tax strategies. I also provide preliminary evidence that tax professionals tend to underestimate potential reputational damage. Knowledge of this general tendency toward underestimation may allow tax professionals to make adjustments and provide more accurate advice to their clients.

My study has several limitations that can be addressed in future research. First, my study captures the public's immediate reactions to news of aggressive tax avoidance. Gallemore et al., (2014) find that negative market reactions, a proxy the authors use for reputation, reverse within 30 days of news of aggressive avoidance. By capturing the public's immediate reaction, my study was unable to determine if damage experienced is indeed permanent. Future studies can examine the extent to which this damage endures. Second, my study examines a tax avoidance strategy that results in enormous tax savings ($2 billion). Future studies can examine whether and how the size of the avoidance affects reputational damage.

TABLE 1
EXPERIMENT 1 – PRE-TEST PERCEIVED REPUTATION

PANEL A: DESCRIPTIVE STATISTICS FOR PRE-TEST PERCEIVED REPUTATION

Negative Prior Reputation (Exxon Mobil)	Positive Prior Reputation (Google)
$\mu = 4.3$	$\mu = 5.6$
SD = 1.7	SD = 1.1
N = 145	N = 149

PANEL B: ANOVA RESULTS FOR PRE-TEST PERCEIVED REPUTATION

Source	df	MSE	F-stat	p-value
Prior Reputation	1	130.68	66.20	<0.01
Residual	292	1.97		

Table 1 shows descriptive statistics (Panel A) and ANOVA results (Panel B) for pre-test *Perceived Reputation*. Participants were randomly assigned to evaluate either Exxon Mobil or Google. Participants answered five *Perceived Reputation* questions before viewing a news article about the company. Specifically, participants indicated whether Google [Exxon Mobil] (1) was company that they could *trust*, (2) was a company they *admired and respected*, (3) whether they had *good feelings* about the company, (4) whether the company had a *positive reputation*, and (5) whether the company was a *good corporate citizen*. Participants provided responses on 7-point Likert scales, where higher responses indicated greater perceived reputation. The Cronbach's alpha for these five pre-test items is above the 0.70 threshold, suggesting that they capture one underlying construct (Nunnally & Bernstein, 1994). Therefore, I average each participant's responses to the five questions to form a composite *Perceived Reputation* measure.

TABLE 2
EXPERIMENT 1 – PRE-TEST INVESTMENT, EMPLOYMENT AND PRODUCT USE INTENTIONS

PANEL A: DESCRIPTIVE STATISTICS FOR PRE-TEST INVESTMENT, EMPLOYMENT, AND PRODUCT USE INTENTIONS

	Negative Prior Reputation (Exxon Mobil)							Positive Prior Reputation (Google)						
	Strongly Disagree	Disagree	Somewhat Disagree	Neither agree nor disagree	Somewhat Agree	Agree	Strongly Agree	Strongly Disagree	Disagree	Somewhat Disagree	Neither agree nor disagree	Somewhat Agree	Agree	Strongly Agree
Investment	18.6%	10.3%	9.0%	24.8%	13.8%	11.7%	11.7%	1.3%	8.1%	4.0%	29.5%	20.1%	19.5%	17.4%
	n=27	n=15	n=13	n=36	n=20	n=17	n=17	n=2	n=12	n=6	n=44	n=30	n=29	n=26
Employment	17.9%	11.0%	11.0%	26.9%	10.3%	11.0%	11.7%	4.0%	6.0%	4.7%	24.8%	17.4%	23.5%	19.5%
	n=26	n=16	n=16	n=39	n=15	n=16	n=17	n=6	n=9	n=7	n=37	n=26	n=35	n=29
Product Use	9.0%	2.8%	6.2%	12.4%	23.4%	30.3%	15.9%	1.3%	0.0%	0.7%	6.7%	16.1%	34.2%	40.9%
	n=13	n=4	n=9	n=18	n=34	n=44	n=23	n=2	n=0	n=1	n=10	n=24	n=51	n=61

PANEL B: ANOVA RESULTS

PRE-TEST INVESTMENT INTENTIONS

Source	df	MSE	F-stat	p-value
Prior Reputation	1	74.00	24.20	< 0.01
Residual	292	3.06		

PRE-TEST EMPLOYMENT INTENTIONS

Source	df	MSE	F-stat	p-value
Prior Reputation	1	94.28	29.51	< 0.01
Residual	292	3.20		

PRE-TEST PRODUCT USE INTENTIONS

Source	df	MSE	F-stat	p-value
Prior Reputation	1	88.24	41.75	< 0.01
Residual	292	2.11		

TABLE 2
EXPERIMENT 1 – PRE-TEST INVESTMENT, EMPLOYMENT AND PRODUCT USE INTENTIONS continued

Table 2 shows descriptive statistics (Panel A) and ANOVA results (Panel B) for participants' pre-test investment, employment, and product use intentions. Participants were randomly assigned to evaluate either Exxon Mobil or Google and indicated their agreement with the following statements on 7-point Likert scales: *I am willing to invest in Google's [Exxon Mobil's] stock*, *I would like to be employed by Google [Exxon Mobil]*, and *I am willing to use Google's [Exxon Mobil's] products.*

TABLE 3
EXPERIMENT 1 – PERCEIVED REPUTATION DIFFERENCE SCORES

PANEL A: DESCRIPTIVE STATISTICS FOR PERCEIVED REPUTATION DIFFERENCE SCORES

	Negative Prior Reputation (Exxon Mobil)	Positive Prior Reputation (Google)	TOTAL
Legal/Consistent with Law's Intent	μ = -1.0 SD = 1.6 N = 59	μ = -0.9 SD = 1.7 N = 58	μ = -1.0 SD = 1.7 N = 117
Legal/Inconsistent with Law's Intent	μ = -1.3 SD = 0.9 N = 43	μ = -1.5 SD = 1.3 N = 39	μ = -1.4 SD = 1.1 N = 82
Illegal/Inconsistent with Law's Intent	μ = -1.1 SD = 1.5 N = 43	μ = -2.0 SD = 1.7 N = 52	μ = -1.6 SD = 1.7 N = 95
TOTAL	μ = -1.1 SD = 1.4 N = 145	μ = -1.4 SD = 1.7 N = 149	μ = -1.3 SD = 1.6 N = 294

PANEL B: ANOVA RESULTS FOR PERCEIVED REPUTATION DIFFERENCE SCORES

Source	df	MSE	F-stat	p-value
Prior Reputation	1	8.08	3.48	0.06
Tax Strategy	2	9.88	4.25	0.02
Prior Reputation x Tax Strategy	2	6.06	2.61	0.08
Residual	288	2.32		

TABLE 3
EXPERIMENT 1 – PERCEIVED REPUTATION DIFFERENCE SCORES continued

Table 3 shows descriptive statistics (Panel A) and ANOVA results (Panel B) for the *Perceived Reputation* difference scores. Participants answered five *Perceived Reputation* questions twice – before and after viewing a news article about a company that employed a tax avoidance strategy. The five questions asked participants to indicate whether Google [Exxon Mobil] (1) was company that they could *trust*, (2) was a company they *admired and respected*, (3) whether they had *good feelings* about the company, (4) whether the company had a *positive reputation*, and (5) whether the company was a *good corporate citizen*. Participants provided responses on 7-point Likert scales, where higher responses indicated greater perceived reputation. The Cronbach's alpha for the five pre-test items and the five post-test items are both above the 0.70 threshold, suggesting that each measure captures one underlying construct (Nunnally & Bernstein, 1994). Therefore, I averaged each participant's pre-test responses to the five questions to form a composite pre-test *Perceived Reputation* measure and averaged each participant's post-test responses to form a composite post-test measure. I then calculated a *Perceived Reputation* difference score for each participant by subtracting pre-test *Perceived Reputation* from post-test *Perceived Reputation*. Positive [negative] difference scores suggest that the tax avoidance news article had a positive [negative] effect on the company's reputation.

TABLE 4
EXPERIMENT 1 – DIFFERENCE SCORES FOR INVESTMENT INTENTIONS

PANEL A: DESCRIPTIVE STATISTICS

	Negative Prior Reputation (Exxon Mobil)	Positive Prior Reputation (Google)	TOTAL
Legal/Consistent with Law's Intent	μ = -0.5 SD = 1.7 N = 59	μ = -0.7 SD = 1.6 N = 58	μ = -0.6 SD = 1.7 N = 117
Legal/Inconsistent with Law's Intent	μ = -1.0 SD = 1.5 N = 43	μ = -0.9 SD = 1.7 N = 39	μ = -0.9 SD = 1.6 N = 82
Illegal/Inconsistent with Law's Intent	μ = -0.8 SD = 1.5 N = 43	μ = -1.5 SD = 1.9 N = 52	μ = -1.2 SD = 1.8 N = 95
TOTAL	μ = -0.7 SD = 1.6 N = 145	μ = -1.0 SD = 1.8 N = 149	μ = -0.9 SD = 1.8 N = 294

PANEL B: ANOVA RESULTS

Source	**df**	**MSE**	**F-state**	**p-value**
Prior Reputation	1	5.20	1.87	0.17
Tax Strategy	2	8.09	2.90	0.06
Prior Reputation x Tax Strategy	2	4.35	1.56	0.21
Residual	288	2.79		

Table 4 shows descriptive statistics (Panel A) and ANOVA results (Panel B) for *Investment* difference scores. Participants were randomly assigned to evaluate either Google or Exxon Mobil and indicated their agreement with the following statement on a 7-point Likert scale: *I am willing to invest in Google's [Exxon Mobil's] stock*. Participants answered this question twice – before and after viewing a news article about Google's [Exxon Mobil's] use of a tax avoidance strategy. I calculated an *Investment* difference score for each participant by subtracting pre-test *Investment* intentions from post-test *Investment* intentions. Positive [negative] difference scores suggest that the tax avoidance news article had a positive [negative] effect on participants' willingness to invest in the company's stock.

TABLE 5
EXPERIMENT 1 – DIFFERENCE SCORES FOR EMPLOYMENT INTENTIONS

PANEL A: DESCRIPTIVE STATISTICS

	Negative Prior Reputation (Exxon Mobil)	Positive Prior Reputation (Google)	TOTAL
Legal/Consistent with Law's Intent	μ = -0.8 SD = 1.7 N = 59	μ = -0.7 SD = 1.7 N = 58	μ = -0.7 SD = 1.7 N = 117
Legal/Inconsistent with Law's Intent	μ = -0.6 SD = 1.2 N = 43	μ = -0.8 SD = 1.5 N = 39	μ = -0.7 SD = 1.4 N = 82
Illegal/Inconsistent with Law's Intent	μ = -0.6 SD = 1.6 N = 43	μ = -1.4 SD = 1.8 N = 52	μ = -1.1 SD = 1.8 N = 95
TOTAL	μ = -0.7 SD = 1.6 N = 145	μ = -1.0 SD = 1.8 N = 149	μ = -0.8 SD = 1.6 N = 294

PANEL B: ANOVA RESULTS

Source	**df**	**MSE**	**F-state**	**p-value**
Prior Reputation	1	6.78	2.63	0.11
Tax Strategy	2	3.37	1.31	0.27
Prior Reputation x Tax Strategy	2	5.60	2.17	0.12
Residual	288	2.58		

Table 5 shows descriptive statistics (Panel A) and ANOVA results (Panel B) for *Employment* difference scores. Participants were randomly assigned to evaluate either Google or Exxon Mobil and indicated their agreement with the following statement on a 7-point Likert scale: *I would like to be employed by Google [Exxon Mobil]*. Participants answered this question twice – before and after viewing a news article about Google's [Exxon Mobil's] use of a tax avoidance strategy. I calculated an *Employment* difference score for each participant by subtracting their pre-test *Employment* rating from their post-test *Employment* rating. Positive [negative] difference scores suggest that the tax avoidance news article had a positive [negative] effect on participants' interest in being employed by the company.

TABLE 6
EXPERIMENT 1 – DIFFERENCE SCORES FOR PRODUCT USE INTENTIONS

PANEL A: DESCRIPTIVE STATISTICS

	Negative Prior Reputation (Exxon Mobil)	Positive Prior Reputation (Google)	TOTAL
Legal/Consistent with Law's Intent	µ = -1.0 SD = 1.9 N = 59	µ = -0.7 SD = 1.8 N = 58	µ = -0.9 SD = 1.8 N = 117
Legal/Inconsistent with Law's Intent	µ = -1.1 SD = 1.4 N = 43	µ = -0.9 SD = 1.3 N = 39	µ = -1.0 SD = 1.4 N = 82
Illegal/Inconsistent with Law's Intent	µ = -1.1 SD = 1.8 N = 43	µ = -1.6 SD = 1.8 N = 52	µ = -1.3 SD = 1.8 N = 95
TOTAL	µ = -1.1 SD = 1.7 N = 145	µ = -1.1 SD = 1.7 N = 149	µ = -1.1 SD = 1.7 N = 294

PANEL B: ANOVA RESULTS

Source	df	MSE	F-stat	p-value
Prior Reputation	1	.06	.021	.89
Tax Strategy	2	5.42	1.86	.16
Prior Reputation x Tax Strategy	2	5.10	1.75	.18
Residual	288	2.92		

Table 6 shows descriptive statistics (Panel A) and ANOVA results (Panel B) for *Product Use* difference scores. Participants were randomly assigned to evaluate either Google or Exxon Mobil and indicated their agreement with the following statement on a 7-point Likert scale: *I am willing to use Google's [Exxon Mobil's] products.* Participants answered this question twice – before and after viewing a news article about Google's [Exxon Mobil's] use of a tax avoidance strategy. I calculated a *Product Use* difference score for each participant by subtracting their pre-test *Product Use* rating from their post-test *Product Use* rating. Positive [negative] difference scores suggest that the tax avoidance news article had a positive [negative] effect on participants' interest in using the company's products.

REFERENCES

Antonetti, P., & Maklan, S. (2016). An extended model of moral outrage at corporate social irresponsibility. *Journal of Business Ethics, 135*(3), 429-444.

Austin, C. R., & Wilson, R. J. (2017). An examination of reputational costs and tax avoidance: Evidence from firms with Valuable consumer brands. *Journal of the American Taxation Association*, *39*(1), 67–93.

Baucus, M. S., & Baucus, D. A. (1997). Paying the piper: An empirical examination of longer-term financial consequences of illegal corporate behavior. *Academy of Management Journal*, *40*(1), 129-151.

Buchheit, S., Doxey, M. M., Pollard, T., & Stinson, S. R. (2017). A technical guide to using Amazon's Mechanical Turk in behavioral accounting research. *Behavioral Research in Accounting*, *30*(1), 111-122.

Carliner, H., Brown, Q. L., Sarvet, A. L., & Hasin, D. S. (2017). Cannabis use, attitudes, and legal status in the US: A review. *Preventive medicine*.

Chauvin, K. W., & Guthrie, J. P. (1994). Labor market reputation and the value of the firm. *Managerial and Decision Economics*, *15*(6), 543-552.

Dor, D. (2003). On newspaper headlines as relevance optimizers. *Journal of Pragmatics*, *35*(5), 695-721

Duhigg, C., & Kocieniewski, D. (2012). How Apple sidesteps billions in taxes. *The New York Times*, *28*, 1-5.

Dyreng, S. D., Hoopes, J. L., & Wilde, J. H. (2016). Public pressure and corporate tax behavior. *Journal of Accounting Research*.

Dyreng, S. D., & Lindsey, B. P. (2009). Using financial accounting data to examine the effect of foreign operations located in tax havens and other countries on U. S. multinational firms' tax rates Multinational Firms Tax Rates. *Journal of Accounting Research*, *47*(5), 1283–1316.

Engel, E., Erickson, M., & Maydew, E. (1999). Debt-equity hybrid securities. *Journal of Accounting Research*, *37*(2), 249–274.

EY (2014). *Bridging the divide tax risk and controversy survey*. Retrieved from ey.com/taxriskseries

Fombrun, C. (1996). *Reputation*. John Wiley & Sons, Ltd.

Fombrun, C. J., Gardberg, N. A., & Barnett, M. L. (2000). Opportunity platforms and safety nets: Corporate citizenship and reputational risk. *Business and society review*, *105*(1), 85-106.

Fombrun, C., & Shanley, M. (1990). What's in a name? Reputation building and corporate strategy. *Academy of Management Journal*, *33*(2), 233–258.

Freeman, R. E. (1999). Divergent stakeholder theory, *Academy of Management Review*, *24*(2), 233-236.

Friedman, M. (2007). The social responsibility of business is to increase its profits. In *Corporate ethics and corporate governance* (pp. 173–178).

Gallemore, J., Maydew, E. L., & Thornock, J. R. (2014). The reputational costs of tax avoidance. *Contemporary Accounting Research*.

GAO. (2011). Abusive tax avoidance transactions IRS needs better data to inform decisions about transactions.

GAO. (2016). Corporate income tax: Most large profitable U.S. corporations paid tax but effective tax rates differed significantly from the statutory rate.

Goldberg, M. E., & Hartwick, J. (1990). The effects of advertiser reputation and extremity of advertising claim on advertising effectiveness. *Journal of Consumer Research*, *17*(2), 172-179.

Graham, J. R., Hanlon, M., Shevlin, T., & Shroff, N. (2014). Incentives for tax planning and avoidance: Evidence from the field. *Accounting Review*.

Hall, R. (1993). A framework linking intangible resources and capabiliites to sustainable competitive advantage. *Strategic Management Journal*, *14*(8), 607–618.

Hanlon, M., & Heitzman, S. (2010). A review of tax research. *Journal of Accounting and Economics*.

Hanlon, M., & Shevlin, T. (2002). Accounting for tax benefits of employee stock options and implications for research. *Accounting Horizons*, *16*(1), 1–16.

Hanlon, M., & Slemrod, J. (2009). What does tax aggressiveness signal? Evidence from stock price reactions to news about tax shelter involvement. *Journal of Public Economics*.

Harpaz, J. (2013, November 20). Corporate Reputation Influences Tas Strategy. *Forbes.* Retrieved June 2, 2018 from https://www.forbes.com/sites/joeharpaz/2013/11/20/corporate-reputation-influences-tax-strategy/#437887ab6621.

Hunter, J. E. (1983). A causal analysis of cognitive ability, job knowledge, job performance, and supervisor ratings. *Performance Measurement and Theory*, 266.

Karpoff, J. M., & Lott, J. R. (1993). The Reputational Penalty Firms Bear from Committing Criminal Fraud. *The Journal of Law and Economics*, *36*(2), 757–802.

Kirchler, E., Hoelzl, E., & Wahl, I. (2007). Enforced versus voluntary tax compliance: The slippery slope’’ framework. *Journal of Economic Psychology*, *29*(2), 210-225.

Kirchler, E., Maciejovsky, B., & Schneider, F. (2003). Everyday representations of tax avoidance, tax evasion, and tax flight: Do legal differences matter?. *Journal of Economic Psychology*, *24*(4), 535-553.

Klayman, J., & Ha, Y. W. (1987). Confirmation, disconfirmation, and information in hypothesis testing. *Psychological Review*, *94*(2), 211.

Kocieniewski, D. (2011, March 24). G.E.'s Strategies Let It Avoid Taxes Altogether. *The New York Times.* Retrieved June 2, 2018, from http://www.nytimes.com/2011/03/25/business/economy/25tax.html?_r=2.

Kubick, T. R., Lynch, D. P., Mayberry, M. A., & Omer, T. C. (2015). Product market power and tax avoidance: Market leaders, mimicking strategies, and stock returns. *Accounting Review*.

Lanis, R., & Richardson, G. (2012). Corporate social responsibility and tax aggressiveness: An empirical analysis. *Journal of Accounting and Public Policy*, *31*(1), 86-108.

Lord, C. G., Ross, L., & Lepper, M. (1979). Biased assimilation and attitude polarization: The effects of prior theories on subsequently considered evidence. *Journal of Personality and Social Psychology*, *37*(11), 2098.

Mishina, Y., Dykes, B. J., Block, E. S., & Pollock, T. G. (2010). Why "Good" firms do bad things: The effects of high aspirations , high expectations and prominence on the insidence of corporate illegality. *The Academy of Management Journal*, *53*(4), 701–722.

Nunnally, J. C., & Bernstein, I. H. (1994). Psychometric theory (3rd ed.). New York: McGraw-Hill.

Payne, D. M., & Raiborn, C. A. (2018). Aggressive tax avoidance: A conundrum for stakeholders, governments, and morality. *Journal of Business Ethics*, *147*(3), 469-487.

Ponzi, L. J., Fombrun, C. J., & Gardberg, N. A. (2011). RepTrak[TM] pulse: Conceptualizing and validating a short-form measure of corporate reputation. *Corporate Reputation Review*, *14*(1), 15–35.

Raithel, S., & Schwaiger, M. (2015). The effects of corporate reputation perceptions of the general public on shareholder value. *Strategic Management Journal*, *36*(6), 945-956.

Rao, V. R., Agarwal, M. K., & Dahlhoff, D. (2004). How is manifest branding strategy related to the intangible value of a corporation? *Journal of Marketing*, *68*(4), 126-141.

Rhee, M., & Valdez, M. E. (2009). Contextual factors surrounding reputation damage with potential implications for reputation repair. *Academy of Management Review*, *34*(1), 146-168.Roberts, P. W., & Dowling, G. R. (2002). Corporate reputation and sustained superior financial performance. *Strategic Management Journal*, *23*(12), 1077–1093.

Schmidt, F. L., Hunter, J. E., Outerbridge, A. N., & Goff, S. (1988). Joint relation of experience and ability with job performance: Test of three hypotheses. *Journal of Applied Psychology*, 73 (1), 46-57.

Shulman, D. 2009. IRS Commissioner Doug Shulman addressed the National Association of Corporate Directors Governance Conference. Washington, DC, October, 19. Available at: https://www.irs.gov/uac/irs-commissioner-doug-shulman-addressed-the-national-association-of-corporate-directors-governance-conference

Smith, S. M., Roster, C. A., Golden, L. L., & Albaum, G. S. (2016). A multi-group analysis of online survey respondent data quality: Comparing a regular USA consumer panel to MTurk samples. *Journal of Business Research*, *69*(8), 3139-3148.

Stigler, G. J. (1962). Information in the labor market. *Journal of political economy*, *70*(5, Part 2), 94-105.

Tyler, T. R. (2006). *Why people obey the law*. Princeton University Press.

Walker, K. (2010). A systematic review of the corporate reputation literature: Definition, measurement, and theory. *Corporate Reputation Review, 12(4).*

Williams, R. J., & Barrett, J. D. (2000). Corporate philanthropy, criminal activity, and firm reputation: Is there a link?. Journal of Business Ethics, 26(4), 341-350.

Wilson, R. J. (2009). An examination of corporate tax shelter participants. *The Accounting Review*, *84*(3), 969-999.

APPENDIX A

PRE-TEST SURVEY MATERIAL

Screen #1

There is a popular debate surrounding corporate responsibility. Some people believe that a corporation's responsibility is to be as profitable as possible while following the law. Others believe that corporations have the additional responsibility to do what is ethical and fair, be a good corporate citizen, and/or contribute resources to their communities.

Below is a list of ten well-known U.S. companies. For each company, respond with your agreement to the following statement:

- I believe Amazon.com is a good corporate citizen.

|----------|----------|----------|----------|----------|----------|----------|----------|----------|
1 2 3 4 5 6 7 8 9
Strongly Disagree ... Strongly Agree ... Not familiar with company

- I believe Apple Inc. is a good corporate citizen.

|----------|----------|----------|----------|----------|----------|----------|----------|----------|
1 2 3 4 5 6 7 8 9
Strongly Disagree ... Strongly Agree ... Not familiar with company

- I believe Comcast Corporation is a good corporate citizen.

|----------|----------|----------|----------|----------|----------|----------|----------|----------|
1 2 3 4 5 6 7 8 9
Strongly Disagree ... Strongly Agree ... Not familiar with company

- I believe Exxon Mobil is a good corporate citizen.

|----------|----------|----------|----------|----------|----------|----------|----------|----------|
1 2 3 4 5 6 7 8 9
Strongly Disagree ... Strongly Agree ... Not familiar with company

- I believe Google is a good corporate citizen.

|----------|----------|----------|----------|----------|----------|----------|----------|----------|
1 2 3 4 5 6 7 8 9
Strongly Disagree ... Strongly Agree ... Not familiar with company

- I believe Johnson & Johnson is a good corporate citizen.

|----------|----------|----------|----------|----------|----------|----------|----------|----------|
1 2 3 4 5 6 7 8 9
Strongly Disagree ... Strongly Agree | Not familiar with company

- I believe PhillipMorris USA (an Altria Company) is a good corporate citizen.

|----------|----------|----------|----------|----------|----------|----------|----------|----------|
1 2 3 4 5 6 7 8 9
Strongly Disagree ... Strongly Agree | Not familiar with company

- I believe The Walt Disney Company is a good corporate citizen.

|----------|----------|----------|----------|----------|----------|----------|----------|----------|
1 2 3 4 5 6 7 8 9
Strongly Disagree ... Strongly Agree | Not familiar with company

- I believe United Airlines is a good corporate citizen.

|----------|----------|----------|----------|----------|----------|----------|----------|----------|
1 2 3 4 5 6 7 8 9
Strongly Disagree ... Strongly Agree | Not familiar with company

- I believe Wells Fargo & Company is a good corporate citizen.

|----------|----------|----------|----------|----------|----------|----------|----------|----------|
1 2 3 4 5 6 7 8 9
Strongly Disagree ... Strongly Agree | Not familiar with company

Screen #2

From the companies listed, drag and drop the one company you believe is the BEST corporate citizen and the company you believe is the WORST corporate citizen.

Amazon.com
Apple Inc.
Comcast Corporation
Exxon Mobil Corporation
Google
Johnson & Johnson
PhillipMorris USA (an Altria Company)
The Walt Disney Company
United Airlines
Wells Fargo & Company

BEST corporate citizen

WORST corporate citizen

Screen #3

Answer the following demographic questions.

- What is your gender? Female Male
- What is your age? ____________________
- What is your marital status? Married Single
- What is your profession? __________________
- How would you classify your political beliefs?

  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Extremely Liberal ... Extremely Conservative

- What is the highest level of education you have completed?

  ____ High school graduate
  ____ 2-year college graduate
  ____ 4-year college graduate
  ____ Master's or other professional graduate
  ____ Other (specify ________________)

APPENDIX B

EXPERIMENT #1 MATERIAL

SCREEN 1 (POSITIVE PRIOR REPUTATION CONDITION)

Instructions**:** *Below you will read a brief description of a well-known U.S. company – Google Inc. – and answer a series of questions regarding your feelings about Google.*

Google Inc. is an American multinational technology company that specializes in Internet-related services and products, including online advertising technologies, search, cloud computing, software, and hardware. Google's mission statement is "to organize the world's information and make it universally accessible and useful."

- Google is a company that I trust.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- Google is a company that I admire and respect.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- I have good feelings about Google.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- Google has a positive reputation.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- Google is a good corporate citizen.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- I am willing to use Google's products.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- I am willing to invest in Google's stock.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- I would like to be employed by Google.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

SCREEN 1 (NEGATIVE PRIOR REPUTATION CONDITION)

Instructions**:** *Below you will read a brief description of a well-known U.S. company – ExxonMobil Inc. – and answer a series of questions regarding your feelings about ExxonMobil.*

Exxon Mobil Inc. is an American multinational energy company that is involved in virtually every segment of the energy sector from coal mining and electricity to the production, exploration and marketing of oil and gas. ExxonMobil's mission statement is "to be the world's premier petroleum and petrochemical company."

- Exxon Mobil is a company that I trust.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- Exxon Mobil is a company that I admire and respect.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- I have good feelings about Exxon Mobil.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- Exxon Mobil has a positive reputation.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- Exxon Mobil is a good corporate citizen.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- I am willing to use Exxon Mobil's products.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- I am willing to invest in Exxon Mobil's stock.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- I would like to be employed by Exxon Mobil.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

SCREEN 2 (POSITIVE PRIOR REPUTATION & LEGAL/INTENT CONDITION)

Instructions**:** *Below you will read a recent newspaper article about Google. Once you've read the article, please click on the Next Screen button at the bottom of the page. On the following screen, you will once again answer a series of questions regarding your feelings about Google.*

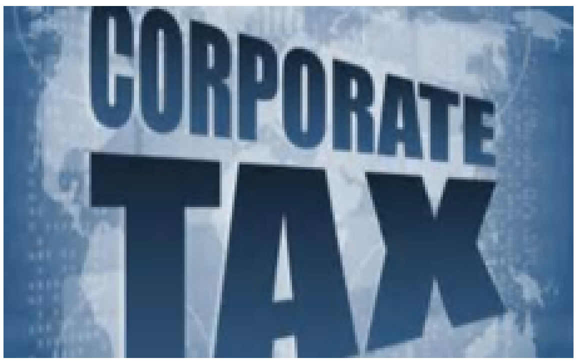
SECTIONS SEARCH Chicago Tribune SUBSCRIBE

SPORTS BREAKING EAT.DRINK.DO. TRENDING OPINION SUBURBS ENTERTAINMENT ADVERTISING

Business

Google Avoids $2 Billion with Alleged Offshore Tax Strategy

Derek Aarons • Contact Reporter



December 27, 2017

Google Inc. is under fire this week for avoiding a record $2 billion of U.S. corporate income tax. The company's 2015 tax filings are currently under investigation by U.S. authorities, who suspect the company engaged in a series of complex and aggressive tax strategies to avoid U.S. income taxes.

Using a series of complex transactions between its various subsidiaries, the company moved income earned in the United States to other countries – first overseas to Ireland and then to the country of Bermuda. Moving U.S. profits offshore resulted in more than two billion dollars of savings for the company.

Google's chairman commented that he is "proud" of the way his company avoids paying income tax. In a recent speech, he defended the company's avoidance strategies in question, "We pay taxes, but we try to structure transactions to minimize our tax burden and maximize reported profits." He continued, "It's called capitalism, and we are proudly capitalistic."

When asked about Google's tax avoidance strategies, Seton Hall University tax professor, Dr. Ted Lorse stated that, "Tax law is incredibly complex, making it difficult to interpret and apply. My opinion is that Google's strategies are technically legal, in that they do satisfy the letter of 2015 U.S. tax laws." Lorse continued, "These strategies do appear to be consistent with the 'spirit,' or intent, of 2015 tax laws. This suggests that corporations utilizing these complex transactions are not shirking on their 'fair share' of our country's tax burden."

Some critics argue that these tax avoidance strategies call into question Google's commitment to good corporate citizenship. The concern is that corporate profits are maximized at the expense of the government's tax revenues, at a time when the United States is confronted with historic levels of national debt.

SCREEN 2 (POSITIVE PRIOR REPUTATION & LEGAL/NOT INTENT CONDITION)

Instructions**:** *Below you will read a recent newspaper article about Google. Once you've read the article, please click on the Next Screen button at the bottom of the page. On the following screen, you will once again answer a series of questions regarding your feelings about Google.*

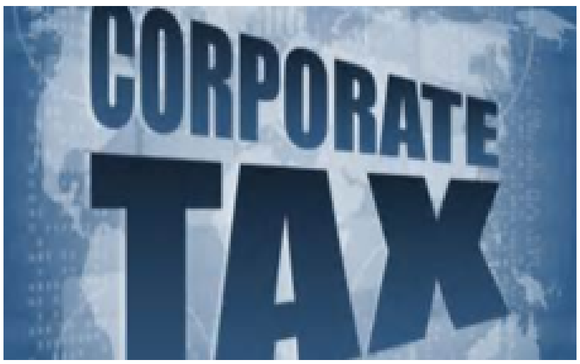
SECTIONS SEARCH Chicago Tribune SUBSCRIBE Sale: 75% OFF

SPORTS BREAKING EAT.DRINK.DO. TRENDING OPINION SUBURBS ENTERTAINMENT ADVERTISING

Business

Google Avoids $2 Billion with Alleged Offshore Tax Strategy

Derek Aarons • Contact Reporter



December 27, 2017

Google Inc. is under fire this week for avoiding a record $2 billion of U.S. corporate income tax. The company's 2015 tax filings are currently under investigation by U.S. authorities, who suspect the company engaged in a series of complex and aggressive tax strategies to avoid U.S. income taxes.

Using a series of complex transactions between its various subsidiaries, the company moved income earned in the United States to other countries – first overseas to Ireland and then to the country of Bermuda. Moving U.S. profits offshore resulted in more than two billion dollars of savings for the company.

Google's chairman commented that he is "proud" of the way his company avoids paying income tax. In a recent speech, he defended the company's avoidance strategies in question, "We pay taxes, but we try to structure transactions to minimize our tax burden and maximize reported profits." He continued, "It's called capitalism, and we are proudly capitalistic."

When asked about Google's tax avoidance strategies, Seton Hall University tax professor, Dr. Ted Lorse stated that, "Tax law is incredibly complex, making it difficult to interpret and apply. My opinion is that Google's strategies are technically legal, in that they do satisfy the letter of 2015 U.S. tax laws." Lorse continued, "However, these strategies do not appear to be consistent with the 'spirit,' or intent, of 2015 tax laws. This suggests that corporations utilizing these complex transactions are shirking on their 'fair share' of our country's tax burden."

Some critics argue that these tax avoidance strategies call into question Google's commitment to good corporate citizenship. The concern is that corporate profits are maximized at the expense of the government's tax revenues, at a time when the United States is confronted with historic levels of national debt.

SCREEN 2 (POSITIVE PRIOR REPUTATION & ILLEGAL/NOT INTENT CONDITION)

***Instructions*:** *Below you will read a recent newspaper article about Google. Once you've read the article, please click on the Next Screen button at the bottom of the page. On the following screen, you will once again answer a series of questions regarding your feelings about Google.*

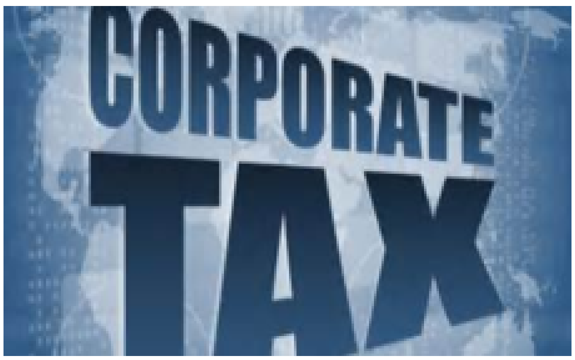
SECTIONS SEARCH Chicago Tribune SUBSCRIBE Sale: 75% OFF

SPORTS BREAKING EAT.DRINK.DO. TRENDING OPINION SUBURBS ENTERTAINMENT ADVERTISING

Business

Google Avoids $2 Billion with Alleged Offshore Tax Strategy

Derek Aarons • Contact Reporter



December 27, 2017

Google Inc. is under fire this week for avoiding a record $2 billion of U.S. corporate income tax. The company's 2015 tax filings are currently under investigation by U.S. authorities, who suspect the company engaged in a series of complex and aggressive tax strategies to avoid U.S. income taxes.

Using a series of complex transactions between its various subsidiaries, the company moved income earned in the United States to other countries – first overseas to Ireland and then to the country of Bermuda. Moving U.S. profits offshore resulted in more than two billion dollars of savings for the company.

Google's chairman commented that he is "proud" of the way his company avoids paying income tax. In a recent speech, he defended the company's avoidance strategies in question, "We pay taxes, but we try to structure transactions to minimize our tax burden and maximize reported profits." He continued, "It's called capitalism, and we are proudly capitalistic."

When asked about Google's tax avoidance strategies, Seton Hall University tax professor, Dr. Ted Lorse stated that, "Tax law is incredibly complex, making it difficult to interpret and apply. My opinion is that Google's strategies are technically illegal, in that they do not satisfy the letter of 2015 U.S. tax laws." Lorse continued, "These strategies also do not appear to be consistent with the 'spirit,' or intent, of 2015 tax laws. This suggests that corporations utilizing these complex transactions are shirking on their 'fair share' of our country's tax burden."

Some critics argue that these tax avoidance strategies call into question Google's commitment to good corporate citizenship. The concern is that corporate profits are maximized at the expense of the government's tax revenues, at a time when the United States is confronted with historic levels of national debt.

SCREEN 2 (NEGATIVE PRIOR REPUTATION & LEGAL/INTENT CONDITION)

Instructions: *Below you will read a recent newspaper article about Exxon Mobil. Once you've read the article, please click on the Next Screen button at the bottom of the page. On the following screen, you will once again answer a series of questions regarding your feelings about Exxon Mobil.*

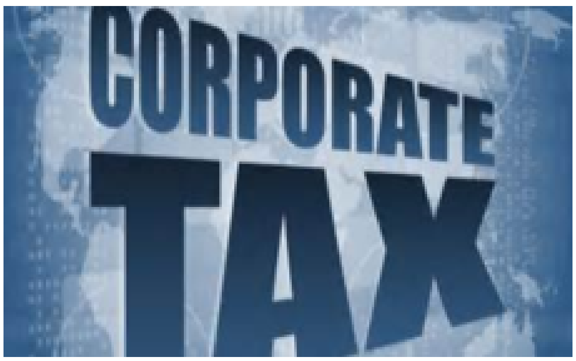
SECTIONS SEARCH **Chicago Tribune** SUBSCRIBE Sale: 75% OFF

SPORTS BREAKING EAT.DRINK.DO. TRENDING OPINION SUBURBS ENTERTAINMENT ADVERTISING

Business

Exxon Mobil Avoids $2 Billion with Alleged Offshore Tax Strategy

Derek Aarons • Contact Reporter



December 27, 2017

Exxon Mobil is under fire this week for avoiding a record $2 billion of U.S. corporate income tax. The company's 2015 tax filings are currently under investigation by U.S. authorities, who suspect the company engaged in a series of complex and aggressive tax strategies to avoid U.S. income taxes.

Using a series of complex transactions between its various subsidiaries, the company moved income earned in the United States to other countries – first overseas to Ireland and then to the country of Bermuda. Moving U.S. profits offshore resulted in more than two billion dollars of savings for the company.

Exxon Mobil's chairman commented that he is "proud" of the way his company avoids paying income tax. In a recent speech, he defended the company's avoidance strategies in question, "We pay taxes, but we try to structure transactions to minimize our tax burden and maximize reported profits." He continued, "It's called capitalism, and we are proudly capitalistic."

When asked about Exxon Mobil's tax avoidance strategies, Seton Hall University tax professor, Dr. Ted Lorse stated that, "Tax law is incredibly complex, making it difficult to interpret and apply. My opinion is that Exxon Mobil's strategies are technically legal, in that they do satisfy the letter of 2015 U.S. tax laws." Lorse continued, "These strategies do appear to be consistent with the 'spirit,' or intent, of 2015 tax laws. This suggests that corporations utilizing these complex transactions are not shirking on their 'fair share' of our country's tax burden."

Some critics argue that these tax avoidance strategies call into question Exxon Mobil's commitment to good corporate citizenship. The concern is that corporate profits are maximized at the expense of the government's tax revenues, at a time when the United States is confronted with historic levels of national debt.

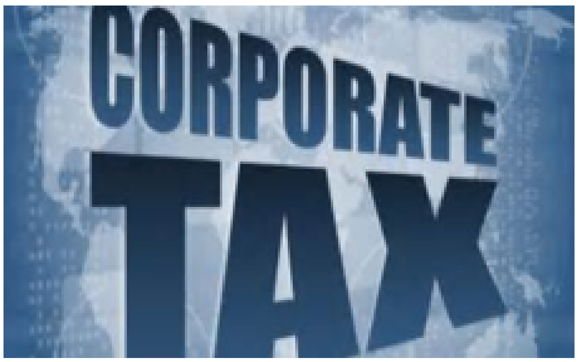
SCREEN 2 (NEGATIVE PRIOR REPUTATION & LEGAL/NOT INTENT CONDITION)

Instructions: *Below you will read a recent newspaper article about Exxon Mobil. Once you've read the article, please click on the Next Screen button at the bottom of the page. On the following screen, you will once again answer a series of questions regarding your feelings about Exxon Mobil.*

Business

Exxon Mobil Avoids $2 Billion with Alleged Offshore Tax Strategy

Derek Aarons • Contact Reporter



December 27, 2017

Exxon Mobil is under fire this week for avoiding a record $2 billion of U.S. corporate income tax. The company's 2015 tax filings are currently under investigation by U.S. authorities, who suspect the company engaged in a series of complex and aggressive tax strategies to avoid U.S. income taxes.

Using a series of complex transactions between its various subsidiaries, the company moved income earned in the United States to other countries – first overseas to Ireland and then to the country of Bermuda. Moving U.S. profits offshore resulted in more than two billion dollars of savings for the company.

Exxon Mobil's chairman commented that he is "proud" of the way his company avoids paying income tax. In a recent speech, he defended the company's avoidance strategies in question, "We pay taxes, but we try to structure transactions to minimize our tax burden and maximize reported profits." He continued, "It's called capitalism, and we are proudly capitalistic."

When asked about Exxon Mobil's tax avoidance strategies, Seton Hall University tax professor, Dr. Ted Lorse stated that, "Tax law is incredibly complex, making it difficult to interpret and apply. My opinion is that Exxon Mobil's strategies are technically legal, in that they do satisfy the letter of 2015 U.S. tax laws." Lorse continued, "However, these strategies do not appear to be consistent with the 'spirit,' or intent, of 2015 tax laws. This suggests that corporations utilizing these complex transactions are shirking on their 'fair share' of our country's tax burden."

Some critics argue that these tax avoidance strategies call into question Exxon Mobil's commitment to good corporate citizenship. The concern is that corporate profits are maximized at the expense of the government's tax revenues, at a time when the United States is confronted with historic levels of national debt.

SCREEN 2 (NEGATIVE PRIOR REPUTATION & ILLEGAL/NOT INTENT CONDITION)

***Instructions*:** *Below you will read a recent newspaper article about Exxon Mobil. Once you've read the article, please click on the Next Screen button at the bottom of the page. On the following screen, you will once again answer a series of questions regarding your feelings about Exxon Mobil.*

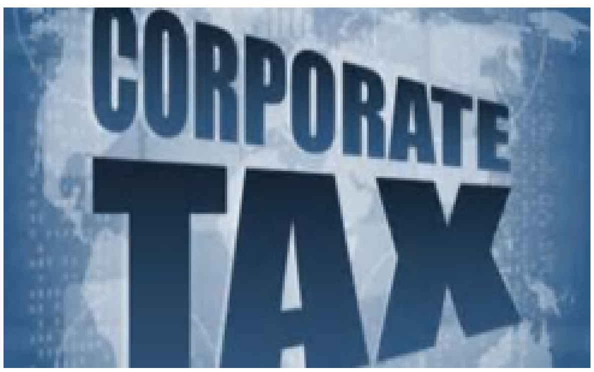
SECTIONS SEARCH **Chicago Tribune** SUBSCRIBE Sale: 75% OFF

SPORTS BREAKING EAT.DRINK.DO. TRENDING OPINION SUBURBS ENTERTAINMENT ADVERTISING

Business

Exxon Mobil Avoids $2 Billion with Alleged Offshore Tax Strategy

Derek Aarons • Contact Reporter



December 27, 2017

Exxon Mobil is under fire this week for avoiding a record $2 billion of U.S. corporate income tax. The company's 2015 tax filings are currently under investigation by U.S. authorities, who suspect the company engaged in a series of complex and aggressive tax strategies to avoid U.S. income taxes.

Using a series of complex transactions between its various subsidiaries, the company moved income earned in the United States to other countries – first overseas to Ireland and then to the country of Bermuda. Moving U.S. profits offshore resulted in more than two billion dollars of savings for the company.

Exxon Mobil's chairman commented that he is "proud" of the way his company avoids paying income tax. In a recent speech, he defended the company's avoidance strategies in question, "We pay taxes, but we try to structure transactions to minimize our tax burden and maximize reported profits." He continued, "It's called capitalism, and we are proudly capitalistic."

When asked about Exxon Mobil's tax avoidance strategies, Seton Hall University tax professor, Dr. Ted Lorse stated that, "Tax law is incredibly complex, making it difficult to interpret and apply. My opinion is that Exxon Mobil's strategies are technically illegal, in that they do not satisfy the letter of 2015 U.S. tax laws." Lorse continued, "These strategies also do not appear to be consistent with the 'spirit,' or intent, of 2015 tax laws. This suggests that corporations utilizing these complex transactions are shirking on their 'fair share' of our country's tax burden."

Some critics argue that these tax avoidance strategies call into question Exxon Mobil's commitment to good corporate citizenship. The concern is that corporate profits are maximized at the expense of the government's tax revenues, at a time when the United States is confronted with historic levels of national debt.

SCREEN 3 (POSITIVE PRIOR REPUTATION CONDITION)

Instructions**:** *Now that you have read the newspaper article, indicate your agreement with the following statements regarding your current feelings of the company Google.*

- Google is a company that I trust.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- Google is a company that I admire and respect.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- I have good feelings about Google.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- Google has a positive reputation.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- Google is a good corporate citizen.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- I am willing to use Google's products.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- I am willing to invest in Google's stock.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- I would like to be employed by Google.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

SCREEN 3 (NEGATIVE PRIOR REPUTATION CONDITION)

***Instructions**: Now that you have read the newspaper article, indicate your agreement with the following statements regarding your current feelings of the company Exxon Mobil.*

- Exxon Mobil is a company that I trust.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- Exxon Mobil is a company that I admire and respect.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- I have good feelings about Exxon Mobil.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- Exxon Mobil has a positive reputation.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- Exxon Mobil is a good corporate citizen.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- I am willing to use Exxon Mobil's products.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- I am willing to invest in Exxon Mobil's stock.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- I would like to be employed by Exxon Mobil.
  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

SCREEN 4 (POSITIVE PRIOR REPUTATION CONDITIONS)

Continue with the following statements.

- My perception of Google's corporate citizenship changed after reading the newspaper article about the company's tax avoidance strategy.

  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- It is acceptable for Google to maximize profits by using the complex tax avoidance strategy reported in the article.

  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- Google has the responsibility to use all available tax avoidance strategies to increase corporate profits.

  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- When Google uses tax avoidance strategies, the company is neglecting its responsibility to contribute to society.

  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

Instructions: Complete the following statements regarding Google's tax strategy reported in the article.

- According to the tax expert's opinion, Google's tax strategy was:

  _____ technically consistent with U.S. tax laws (technically legal).

  _____ technically inconsistent with U.S. tax laws (technically illegal).

- According to the tax expert, Google's tax strategy was:

  _____ consistent with the tax law's intent ('spirit' of the law).

  _____ inconsistent with the tax law's intent (not the 'spirit' of the law).

- When Google's management is faced with a decision about its tax strategies, two competing responsibilities must be considered - their responsibility to minimize taxes and maximize profits and their responsibility to be a good corporate citizen by paying their 'fair share' of taxes. Google's primary responsibility should be?

  _____ Minimize tax (maximize profits)

  _____ Good corporate citizenship (paying their 'fair share')

SCREEN 4 (NEGATIVE PRIOR REPUTATION CONDITIONS)

Continue with the following statements.

- My perception of Exxon Mobil's corporate citizenship changed after reading the newspaper article about the company's tax avoidance strategy.

  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- It is acceptable for Exxon Mobil to maximize profits by using the complex tax avoidance strategy reported in the article.

  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- Exxon Mobil has the responsibility to use all available tax avoidance strategies to increase corporate profits.

  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

- When Exxon Mobil uses tax avoidance strategies, the company is neglecting its responsibility to contribute to society.

  |----------|----------|----------|----------|----------|----------|
  1 2 3 4 5 6 7
  Strongly Disagree Strongly Agree

Instructions: Complete the following statements regarding Exxon Mobil's tax strategy reported in the article.

- According to the tax expert's opinion, Exxon Mobil's tax strategy was:

  _____ technically consistent with U.S. tax laws (technically legal).

  _____ technically inconsistent with U.S. tax laws (technically illegal).

- According to the tax expert, Exxon Mobil's tax strategy was:

  _____ consistent with the tax law's intent ('spirit' of the law).

  _____ inconsistent with the tax law's intent (not the 'spirit' of the law).

- When Exxon Mobil's management is faced with a decision about its tax strategies, two competing responsibilities must be considered - their responsibility to minimize taxes and maximize profits and their responsibility to be a good corporate citizen by paying their 'fair share' of taxes. Exxon Mobil's primary responsibility should be?

  _____ Minimize tax (maximize profits)

  _____ Good corporate citizenship (paying their 'fair share')

SCREEN 5 (ALL CONDITIONS)

- What is your gender? Female Male
- What is your age? ____________________
- What is your marital status? Married Single
- What is your profession? __________________
- What is the highest level of education you have completed?

  ____ High school graduate

  ____ 2-year college graduate

  ____ 4-year college graduate

  ____ Master's or other professional graduate

  ____ Other (specify ________________)

- Indicate your agreement with the following statement

  My political beliefs are

  |---------------|---------------|---------------|---------------|---------------|---------------|

  1 2 3 4 5 6 7

Extremely Liberal … Extremely Conservative

APPENDIX C

EXPERIMENT #2 MATERIAL

SCREEN 1 (POSITIVE PRIOR REPUTATION CONDITIONS)

Assume that a sample of 100 people from the general public in the U.S. were provided the following brief description of a well-known U.S.-based company – Google Corporation.

> Google Corporation is a U.S.-based international energy company that is involved in virtually every segment of the energy sector from the production, exploration and marketing of oil and gas. According to Google, its mission is "to be the world's premier petroleum and petrochemical company".

Instructions: *Please predict how YOU believe 100 people from the general public will respond to the two statements below. Specifically, identify the number of people (out of 100) that you believe would provide each of the possible responses (i.e., Strongly agree, Agree, Somewhat agree, Neither agree nor disagree, Somewhat disagree, Disagree, Strongly disagree).*

Note that your answers must sum to 100 for each statement.

- **Google has a positive reputation**

Strongly agree	_____%
Agree	_____%
Somewhat agree	_____%
Neither agree nor disagree	_____%
Somewhat disagree	_____%
Disagree	_____%
Strongly disagree	_____%
Total	_____%

- **Google is a good corporate citizen**

Strongly agree	_____%
Agree	_____%
Somewhat agree	_____%
Neither agree nor disagree	_____%
Somewhat disagree	_____%
Disagree	_____%
Strongly disagree	_____%
Total	_____%

SCREEN 1 (NEGATIVE PRIOR REPUTATION CONDITIONS)

Assume that a sample of 100 people from the general public in the U.S. were provided the following brief description of a well-known U.S.-based company – Exxon Mobil Corporation.

> Exxon Mobil Corporation is a U.S.-based international energy company that is involved in virtually every segment of the energy sector from the production, exploration and marketing of oil and gas. According to Exxon Mobil, its mission is "to be the world's premier petroleum and petrochemical company".

Instructions: *Please predict how YOU believe 100 people from the general public will respond to the two statements below. Specifically, identify the number of people (out of 100) that you believe would provide each of the possible responses (i.e., Strongly agree, Agree, Somewhat agree, Neither agree nor disagree, Somewhat disagree, Disagree, Strongly disagree).*

Note that your answers must sum to 100 for each statement.

- **Exxon Mobil has a positive reputation**

Strongly agree	_____%
Agree	_____%
Somewhat agree	_____%
Neither agree nor disagree	_____%
Somewhat disagree	_____%
Disagree	_____%
Strongly disagree	_____%
Total	_____%

- **Exxon Mobil is a good corporate citizen**

Strongly agree	_____%
Agree	_____%
Somewhat agree	_____%
Neither agree nor disagree	_____%
Somewhat disagree	_____%
Disagree	_____%
Strongly disagree	_____%
Total	_____%

SCREEN 2 (POSITIVE PRIOR REPUTATION & LEGAL/INTENT CONDITION)

***Instructions*:** *On the next page you will read a newspaper article recently published about Google. Once you have carefully read the entire article, click the arrow button at the end and you will be asked to respond to another series of statements regarding YOUR prediction of how the general public will respond.*

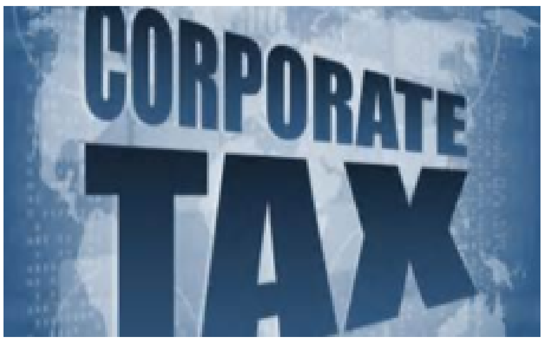
SECTIONS SEARCH Chicago Tribune SUBSCRIBE Sale: 75% OFF

SPORTS BREAKING EAT.DRINK.DO. TRENDING OPINION SUBURBS ENTERTAINMENT ADVERTISING

Business

Google Avoids $2 Billion with Alleged Offshore Tax Strategy

Derek Aarons • Contact Reporter



December 27, 2017

Google Inc. is under fire this week for avoiding a record $2 billion of U.S. corporate income tax. The company's 2015 tax filings are currently under investigation by U.S. authorities, who suspect the company engaged in a series of complex and aggressive tax strategies to avoid U.S. income taxes.

Using a series of complex transactions between its various subsidiaries, the company moved income earned in the United States to other countries – first overseas to Ireland and then to the country of Bermuda. Moving U.S. profits offshore resulted in more than two billion dollars of savings for the company.

Google's chairman commented that he is "proud" of the way his company avoids paying income tax. In a recent speech, he defended the company's avoidance strategies in question, "We pay taxes, but we try to structure transactions to minimize our tax burden and maximize reported profits." He continued, "It's called capitalism, and we are proudly capitalistic."

When asked about Google's tax avoidance strategies, Seton Hall University tax professor, Dr. Ted Lorse stated that, "Tax law is incredibly complex, making it difficult to interpret and apply. My opinion is that Google's strategies are technically legal, in that they do satisfy the letter of 2015 U.S. tax laws." Lorse continued, "These strategies do appear to be consistent with the 'spirit,' or intent, of 2015 tax laws. This suggests that corporations utilizing these complex transactions are not shirking on their 'fair share' of our country's tax burden."

Some critics argue that these tax avoidance strategies call into question Google's commitment to good corporate citizenship. The concern is that corporate profits are maximized at the expense of the government's tax revenues, at a time when the United States is confronted with historic levels of national debt.

SCREEN 2 (POSITIVE PRIOR REPUTATION & LEGAL/NOT INTENT CONDITION)

***Instructions*:** *On the next page you will read a newspaper article recently published about Google. Once you have carefully read the entire article, click the arrow button at the end and you will be asked to respond to another series of statements regarding YOUR prediction of how the general public will respond.*

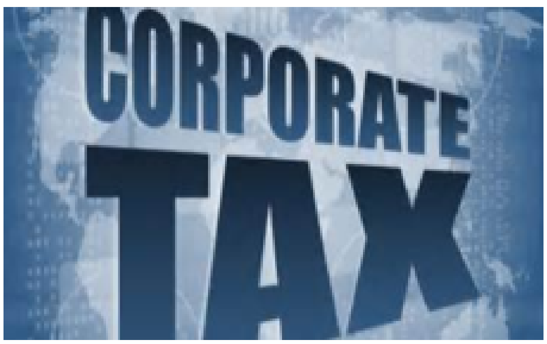
SECTIONS SEARCH Chicago Tribune SUBSCRIBE Sale: 75% OFF

SPORTS BREAKING EAT.DRINK.DO. TRENDING OPINION SUBURBS ENTERTAINMENT ADVERTISING

Business

Google Avoids $2 Billion with Alleged Offshore Tax Strategy

Derek Aarons • Contact Reporter



December 27, 2017

Google Inc. is under fire this week for avoiding a record $2 billion of U.S. corporate income tax. The company's 2015 tax filings are currently under investigation by U.S. authorities, who suspect the company engaged in a series of complex and aggressive tax strategies to avoid U.S. income taxes.

Using a series of complex transactions between its various subsidiaries, the company moved income earned in the United States to other countries – first overseas to Ireland and then to the country of Bermuda. Moving U.S. profits offshore resulted in more than two billion dollars of savings for the company.

Google's chairman commented that he is "proud" of the way his company avoids paying income tax. In a recent speech, he defended the company's avoidance strategies in question, "We pay taxes, but we try to structure transactions to minimize our tax burden and maximize reported profits." He continued, "It's called capitalism, and we are proudly capitalistic."

When asked about Google's tax avoidance strategies, Seton Hall University tax professor, Dr. Ted Lorse stated that, "Tax law is incredibly complex, making it difficult to interpret and apply. My opinion is that Google's strategies are technically legal, in that they do satisfy the letter of 2015 U.S. tax laws." Lorse continued, "However, these strategies do not appear to be consistent with the 'spirit,' or intent, of 2015 tax laws. This suggests that corporations utilizing these complex transactions are shirking on their 'fair share' of our country's tax burden."

Some critics argue that these tax avoidance strategies call into question Google's commitment to good corporate citizenship. The concern is that corporate profits are maximized at the expense of the government's tax revenues, at a time when the United States is confronted with historic levels of national debt.

SCREEN 2 (NEGATIVE PRIOR REPUTATION & LEGAL/INTENT CONDITION)

***Instructions*:** *On the next page you will read a newspaper article recently published about Exxon Mobil. Once you have carefully read the entire article, click the arrow button at the end and you will be asked to respond to another series of statements regarding YOUR prediction of*

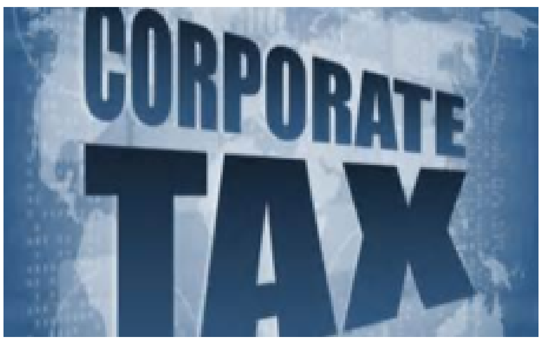
SECTIONS SEARCH Chicago Tribune SUBSCRIBE Sale: 75% OFF

SPORTS BREAKING EAT.DRINK.DO. TRENDING OPINION SUBURBS ENTERTAINMENT ADVERTISING

Business

Exxon Mobil Avoids $2 Billion with Alleged Offshore Tax Strategy

Derek Aarons • Contact Reporter



December 27, 2017

Exxon Mobil is under fire this week for avoiding a record $2 billion of U.S. corporate income tax. The company's 2015 tax filings are currently under investigation by U.S. authorities, who suspect the company engaged in a series of complex and aggressive tax strategies to avoid U.S. income taxes.

Using a series of complex transactions between its various subsidiaries, the company moved income earned in the United States to other countries – first overseas to Ireland and then to the country of Bermuda. Moving U.S. profits offshore resulted in more than two billion dollars of savings for the company.

Exxon Mobil's chairman commented that he is "proud" of the way his company avoids paying income tax. In a recent speech, he defended the company's avoidance strategies in question, "We pay taxes, but we try to structure transactions to minimize our tax burden and maximize reported profits." He continued, "It's called capitalism, and we are proudly capitalistic."

When asked about Exxon Mobil's tax avoidance strategies, Seton Hall University tax professor, Dr. Ted Lorse stated that, "Tax law is incredibly complex, making it difficult to interpret and apply. My opinion is that Exxon Mobil's strategies are technically legal, in that they do satisfy the letter of 2015 U.S. tax laws." Lorse continued, "These strategies do appear to be consistent with the 'spirit,' or intent, of 2015 tax laws. This suggests that corporations utilizing these complex transactions are not shirking on their 'fair share' of our country's tax burden."

Some critics argue that these tax avoidance strategies call into question Exxon Mobil's commitment to good corporate citizenship. The concern is that corporate profits are maximized at the expense of the government's tax revenues, at a time when the United States is confronted with historic levels of national debt.

how the general public will respond.

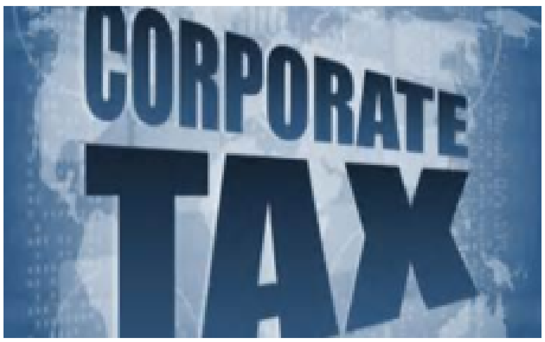
SCREEN 2 (NEGATIVE PRIOR REPUTATION & LEGAL/NOT INTENT CONDITION)

***Instructions*:** *On the next page you will read a newspaper article recently published about Exxon Mobil. Once you have carefully read the entire article, click the arrow button at the end and you will be asked to respond to another series of statements regarding YOUR prediction of how the general public will respond.*

Business

Exxon Mobil Avoids $2 Billion with Alleged Offshore Tax Strategy

Derek Aarons • Contact Reporter



December 27, 2017

Exxon Mobil is under fire this week for avoiding a record $2 billion of U.S. corporate income tax. The company's 2015 tax filings are currently under investigation by U.S. authorities, who suspect the company engaged in a series of complex and aggressive tax strategies to avoid U.S. income taxes.

Using a series of complex transactions between its various subsidiaries, the company moved income earned in the United States to other countries – first overseas to Ireland and then to the country of Bermuda. Moving U.S. profits offshore resulted in more than two billion dollars of savings for the company.

Exxon Mobil's chairman commented that he is "proud" of the way his company avoids paying income tax. In a recent speech, he defended the company's avoidance strategies in question, "We pay taxes, but we try to structure transactions to minimize our tax burden and maximize reported profits." He continued, "It's called capitalism, and we are proudly capitalistic."

When asked about Exxon Mobil's tax avoidance strategies, Seton Hall University tax professor, Dr. Ted Lorse stated that, "Tax law is incredibly complex, making it difficult to interpret and apply. My opinion is that Exxon Mobil's strategies are technically legal, in that they do satisfy the letter of 2015 U.S. tax laws." Lorse continued, "However, these strategies do not appear to be consistent with the 'spirit,' or intent, of 2015 tax laws. This suggests that corporations utilizing these complex transactions are shirking on their 'fair share' of our country's tax burden."

Some critics argue that these tax avoidance strategies call into question Exxon Mobil's commitment to good corporate citizenship. The concern is that corporate profits are maximized at the expense of the government's tax revenues, at a time when the United States is confronted with historic levels of national debt.

SCREEN 3 (POSITIVE PRIOR REPUTATION CONDITIONS)

Instructions: *Predict how YOU believe 100 people from the general public will respond to the same statements AFTER reading the newspaper articles. Similar to the pre-test, identify the number of people (out of 100) that you believe would provide each of the possible responses (i.e., Strongly agree, Agree, Somewhat agree, Neither agree nor disagree, Somewhat disagree, Disagree, Strongly disagree).*

Note that your answers must sum to 100 for each statement.

- **Google has a positive reputation**

Strongly agree	_____%
Agree	_____%
Somewhat agree	_____%
Neither agree nor disagree	_____%
Somewhat disagree	_____%
Disagree	_____%
Strongly disagree	_____%
Total	_____%

- **Google is a good corporate citizen**

Strongly agree	_____%
Agree	_____%
Somewhat agree	_____%
Neither agree nor disagree	_____%
Somewhat disagree	_____%
Disagree	_____%
Strongly disagree	_____%
Total	_____%

SCREEN 3 (NEGATIVE PRIOR REPUTATION CONDITIONS)

Instructions: *Predict how YOU believe 100 people from the general public will respond to the same statements AFTER reading the newspaper articles. Similar to the pre-test, identify the number of people (out of 100) that you believe would provide each of the possible responses (i.e., Strongly agree, Agree, Somewhat agree, Neither agree nor disagree, Somewhat disagree, Disagree, Strongly disagree).*

Note that your answers must sum to 100 for each statement.

- **Exxon Mobil has a positive reputation**

Strongly agree	_____%
Agree	_____%
Somewhat agree	_____%
Neither agree nor disagree	_____%
Somewhat disagree	_____%
Disagree	_____%
Strongly disagree	_____%
Total	_____%

- **Exxon Mobil is a good corporate citizen**

Strongly agree	_____%
Agree	_____%
Somewhat agree	_____%
Neither agree nor disagree	_____%
Somewhat disagree	_____%
Disagree	_____%
Strongly disagree	_____%
Total	_____%

SCREEN 4 (POSITIVE PRIOR REPUTATION CONDITIONS)

Instructions: *Complete the following statements regarding Google's tax strategy reported in the article.*

- The tax expert quoted in the article stated that Google’s tax strategy was:

  _____ technically consistent with U.S. tax laws (i.e., technically legal)

  _____ technically inconsistent with U.S. tax laws (i.e., technically illegal)

- The tax expert quoted in the article stated that Google’s tax strategy was:

  _____ consistent with the tax law’s intent (‘spirit’ of the law).

  _____ inconsistent with the tax law’s intent (not the ‘spirit’ of the law).

SCREEN 4 (NEGATIVE PRIOR REPUTATION CONDITIONS)

Instructions: *Complete the following statements regarding Exxon Mobil's tax strategy reported in the article.*

- The tax expert quoted in the article stated that Exxon Mobil’s tax strategy was:

  _____ technically consistent with U.S. tax laws (i.e., technically legal)

  _____ technically inconsistent with U.S. tax laws (i.e., technically illegal)

- The tax expert quoted in the article stated that Exxon Mobil’s tax strategy was:

  _____ consistent with the tax law’s intent (‘spirit’ of the law).

  _____ inconsistent with the tax law’s intent (not the ‘spirit’ of the law).

SCREEN 5 (ALL CONDITIONS)

Instructions: *Please answer the following background information regarding your professional experience.*

- My current rank within my firm is:
  ____ Partner
  ____ Manager
  ____ Senior
  ____ Other (Please specify ________________)

- I have worked at this level (i.e., manager, partner) for _______ years.

- I have worked as a public tax practitioner for _______ years.

- In terms of size, the firm I work for is best classified as:
  ____ Big 4 firm
  ____ Non Big 4 firm with national client base
  ____ Non Big 4 firm with regional client base
  ____ Other (Please specify ________________)

- I have worked on the following types of tax engagements (check all that apply):
  ____ Sales and Use Tax return preparation
  ____ Sales and Use Tax reduction strategies
  ____ Income Tax return preparation
  ____ Income Tax reduction strategies
  ____ Other (Please specify ________________)
  ____ Other (Please specify ________________)

- I have worked on the following types of tax clients (check all that apply):
  ____ Non-Profits
  ____ Individuals
  ____ Flow-through entities
  ____ C Corporations
  ____ Other (Please specify ________________)

- Regarding ownership, the businesses I have worked on have been primarily:
  ____ Publicly owned
  ____ Privately owned